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SOCIAL SECURITY, MEDICARE, AND THE UNIFIED BUDGET

A REPORT

PREPARED BY THE
CONGRESSIONAL RESEARCH SERVICE

FOR THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

SEPTEMBER 1985

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COMMITTEE LETTER REQUESTING STUDY

UNITED STATES SENATE,
COMMITTEE ON THE BUDGET,
Washington, DC, August 5, 1985.

MR. GILBERT GUDE,
Congressional Research Service,
Library of Congress, Washington, DC.

DEAR MR. GUDE: A major challenge facing the Congress is to devise appropriate fiscal policies for the social security program both the short and long term. Social security is the Nation's largest and most important domestic program, touching the lives of nearly all Americans. In FY 1985 the program will provide $189 billion in benefits to 37 million retirees, disabled workers, and their dependents and survivors.

Although the Social Security Amendments of 1983 removed social security and medicare from the Federal budget in FY 1993, several Senators have proposed to remove the programs from the budget sooner. It is likely that other proposals will be made during debate on the budget this year. This Committee, while it may not favor such proposals, must be prepared to consider them.

The Committee requests that the Congressional Research Service (CRS) conduct a study of social security and medicare and the Federal budget. The study should trace the history of social security, medicare, and the unified Federal budget. It should analyze the impact of removing social security and medicare from the budget, including estimates of changes in the Federal deficit resulting from such a change. The study should discuss the effect on social security and medicare financing. In particular, CRS should analyze proposals made by Members of Congress to effect such changes, including arguments for and against the proposals.

To be of greatest use the Committee needs the report by mid-September 1985, in time for possible hearings on the Congressional budget process. Michael Carozza (224-0564) of the Budget Committee staff will be available to consult with CRS throughout the project.

Thank you.

Sincerely,

PETE V. DOMENICI,
Chairman.

LETTER OF SUBMITTAL

SEPTEMBER 20, 1985.

Hon. PETE V. DOMENICI,
Chairman, Committee on the Budget,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: Your letter of August 5, 1985, asked the Congressional Research Service to prepare a report on the relationship of social security and medicare to the unified Federal budget. You also requested an analysis of measures to accelerate the removal of these programs from the budget from FY 1993 to some earlier year.

In response to your request, I am pleased to submit this report, "Social Security, Medicare, and the Unified Federal Budget." It was prepared by David Koitz, who is a social security specialist in the Education and Public Welfare Division of CRS. Gene Falk, of that division, provided research assistance. Paul Cullinan of the Congressional Budget Office provided estimates of the future impact of various measures to remove the programs from the budget.

We hope this report will be useful in your upcoming hearings on the congressional budget process.

Sincerely,

GILBERT GUDE,
Director.

LETTER OF TRANSMITTAL

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United States Senate

COMMITTEE ON THE BUDGET
WASHINGTON, DC 20510

MEMORANDUM

TO: SENATE BUDGET COMMITTEE MEMBERS

DATE: SEPTEMBER 30, 1985

SUBJECT: "SOCIAL SECURITY, MEDICARE, AND THE UNIFIED BUDGET"

Two major challenges facing the Congress are to reduce the enormous federal deficit and to devise appropriate fiscal policies for social security and medicare. The Senate recently directed this Committee to report legislation to assure that social security benefits are not altered to reduce the deficit and to examine social security in the context of the budget.

To assist the Committee in this task I asked the Congressional Research Service to prepare a report on social security, medicare and the budget. I asked them to review the history of the program's budgetary treatment; answer frequently asked questions and provide basic data about their relationship to the nation's budget and debt; examine proposals to change the budgetary treatment of the programs; and discuss the issues surrounding this topic.

The report clarifies the relationship of social security, medicare, and the unified budget. It concludes that social security and medicare affect the financial well-being of the nation whether or not they are portrayed as part of the federal budget. It demonstrates that changes in social security taxes and benefits change the deficit just like any other federal program.

It shows that the recommendation to move social security and medicare into the unified budget was made to provide a clear picture of all federal activities, not just to hide a deficit. In fact, six times over the past 15 years social security programs have made the federal deficit appear worse. It also shows the $237 billion in general fund transfers to the trust funds.

Social security trust funds and federal fiscal policy are financially dependent on one another, like an individual checking account in a bank. While the account may show a healthy balance, it matters very little if the bank itself is not financially sound.

Issuance of this report as a Budget Committee print does not imply that the Committee endorses the conclusions or the information presented.

Pete V. Domenici
Chairman

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I. INTRODUCTION

Social security and medicare currently are counted in the Federal budget that is submitted to Congress and the nation each year by the President, and similarly are counted in the total receipt and expenditure targets Congress sets each year in budget resolutions.

In short, the financial operations of the Federal Government are portrayed by both the executive and legislative branches of Government under what is known as a unified budget. Prior to this year a few forms of financial transactions that the Government engaged in were excluded from the budget totals. In FY 1984, for instance, $10 billion out of $852 billion in total Federal expenditures were considered outside of the totals or what is technically referred to as "off budget." Off-budget receipts were negligible. For FY 1986 the President's budget and the First Concurrent Resolution on the Budget passed by the Congress incorporated all previously off-budget items in the budget totals.

Social security, medicare and other Federal programs that operate through special trust fund accounts have been included in the budget totals developed by each Administration since FY 1969. In enactment of the Congressional Budget and Impoundment Control Act of 1974, P.L. 93-344, Congress adopted a similar unified approach for itself to formulate Federal budgets independently of the Administration. These programs, therefore, directly affect the amount by which the total budget is in deficit or surplus.

Because of mounting controversy about the way budgetary pressures were affecting social security and medicare, Congress enacted a measure in 1983 that calls for removal of social security and the hospital insurance portion of medicare from the budget beginning in FY 1993.[1]

Those pursuing the budget separation were concerned that long-term reductions or even elimination of various types of social security benefits were being proposed, and sometimes adopted, primarily for the purpose of meeting short-term budgetary goals. They contended that social security and medicare were unique among social welfare programs by being perceived by the public as carrying long-term commitments around which people made retirement plans. As such, they argued, that changes to them should be made exclusively on the basis of their objectives and financial constraints, not because of other economic policy goals or budgetary

[1] Section 346 of P.L. 98-21, the Social Security Amendments of 1983. This provision became section 710 of the Social Security Act.

constraints of the Government as a whole. Supporters of the unified budget pointed to the very large portion of overall Federal expenditures that social security and hospital insurance had become—accounting, for instance, for 26 percent of all Federal expenditures in FY 1982—and asserted it made no sense to ignore programs of this magnitude in formulating the Federal budget and related economic policy. Moreover, they argued that social security had many "social welfare" features that were similar in objective to those found in other Government programs, and therefore should be subject to the same budgetary scrutiny and constraints.

While the inclusion of social security and medicare in the FY 1969 budget helped make a surplus appear in that year's budget totals, in 6 out of 15 subsequent years it caused the deficit figures to be larger than had the budget remained fragmented.

Current projections made by the Congressional Budget Office using the Senate Budget Committee's baseline show that if these programs were removed from the budget beginning in FY 1986, the deficits in the remaining de-unified budget would be shown to be larger than they otherwise would appear by amounts ranging from $17 billion in FY 1986 to $69 billion in FY 1990. In other words, the deficits projected under the baseline would be $244 billion in FY 1986, instead of $227 billion, and $290 billion in FY 1990, instead of $221 billion. Under projections made by the Social Security Administration's actuaries the de-unified budget deficits would continue to be larger in later years by increasing amounts. In FY 1993, for instance, the estimated effect of the provision of current law requiring the removal of social security and hospital insurance from the budget would be to increase the budget deficit for that year by $76 billion.[2] A portion of these higher deficits would result from treating internal transfers from the general fund to the trust funds as budget outlays. Currently these internal transfers would have no effect on the unified budget totals.

It is important to recognize that social security and medicare affect the financial well-being of the Federal Government whether or not they are portrayed as part of the Federal budget. Therefore, removal of the financial operations of social security and medicare from the Federal budget will not, in and of itself, change the effect these programs have on the financial operations of the Government. The amounts the Government taxes, spends, and borrows would be the same whether these programs were arrayed separately or together with the financial transactions of the rest of the Government. What is unknown is whether and to what extent arraying the financial operations of these programs separately will alter subsequent budgetary decisions.

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[2] As reflected under the Intermediate II-B forecast of the 1985 social security and medicare trustees' reports. Although not specifically shown in this way, this estimate was derived from projections found in a memorandum by Steven M. McKay of the Office of the Actuary of the Social Security Administration entitled "Estimated Short-Range Operations of the OASI, DI, and HI Trust Funds on the Basis of the 1985 Trustees Report Assumptions—INFORMATION," dated April 8, 1985.

This report provides a short history of the inclusion of social security and medicare in the unified budget. It explains the various ways in which these programs affect the budget and financial operations of the Government, and how they affect and are affected by the Federal debt and debt ceiling. It shows what effect these programs have had on the budget since it was unified in FY 1969, and what overall effect they had on the financial affairs of the Government from 1937 to 1984. It also contains CBO projections of the financial effects on a de-unified budget if measures were enacted to remove these programs from the budget beginning in FY 1986, or some other year prior to FY 1993. Finally, it summarizes the bills that have been introduced to accelerate removal of these programs from the budget and provides arguments for and against such action.

II. HISTORY OF SOCIAL SECURITY'S AND MEDICARE'S TREATMENT IN THE BUDGET

Prior to FY 1969, the Federal budget figures that Congress and the public were most familiar with, commonly referred to as the "administrative" budget, did not include the operations of the various Federal trust funds. The administrative budget included only receipts and expenditures moving into and out of the general fund of the treasury that generally were subject to control through the appropriations process. The financial transactions of social security and medicare and other Federal programs that were accounted for through trust funds were shown separately from the administrative budget, except for purposes of economic analysis.[3]

In October 1967, President Johnson's Commission on Budget Concepts recommended that the Federal budget be unified. This meant that the financial operations of the various Federal trust funds would be shown together with those of other Government programs in a single budget.

President Johnson accepted that recommendation and presented his FY 1969 budget on a unified basis. No legislation was required, since it merely involved a new way of portraying the financial matters of the Federal Government. The Commission believed that the budget process was the central decision-making process of the Government. It regarded a unified budget as essential for two major activities—determining economic stabilization policy and allocating funds to competing programs. The comprehensiveness of the unified budget would allow a more complete assessment of the economic impact of the budget. The inclusion of all the Government's financial activities would also allow a broader assessment of spending priorities. (See appendices C, D, and E for pertinent sections of the Commission's report and statements made by President Johnson about the adoption of the unified budget concept.)

Congress subsequently adopted a unified approach to budgeting for itself in the Congressional Budget and Impoundment Control Act of 1974, P.L. 93-344. This law established procedures to allow Congress to develop aggregate Federal budgets independently of the President, and the sphere of programs to be covered by the new process included social security and medicare. (For pertinent sections of P.L. 93-344, see appendix B.)

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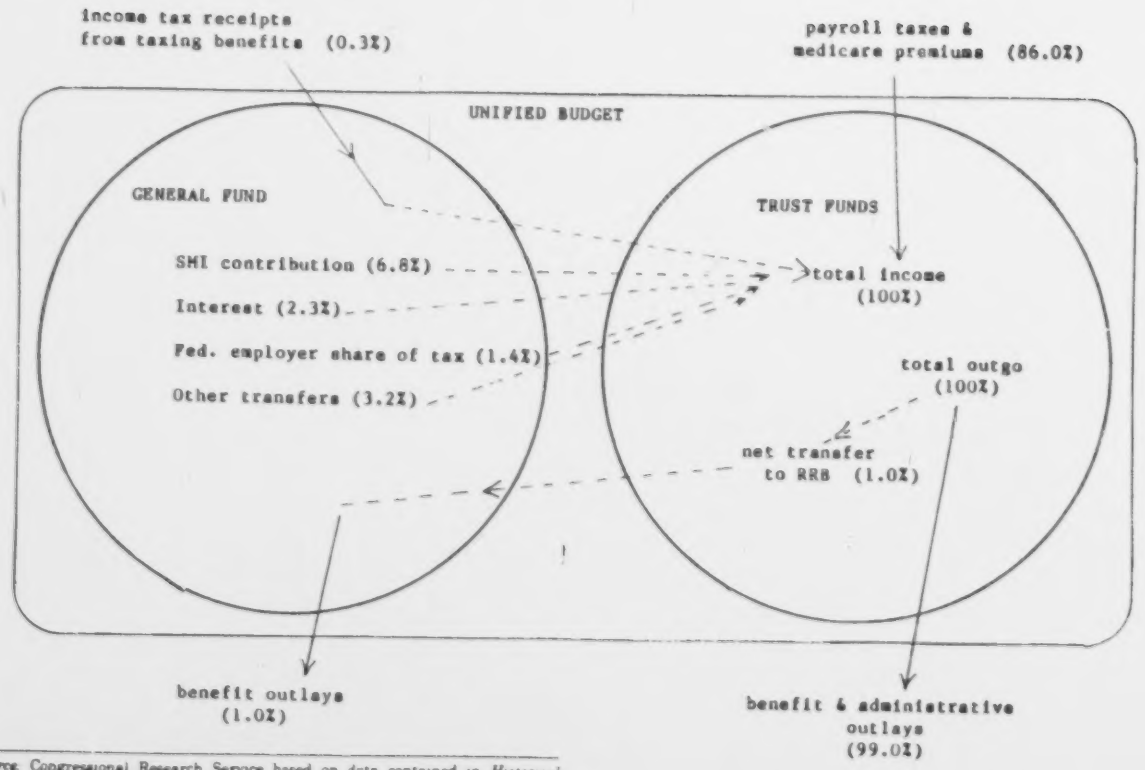
[3] Federal financial transactions were measured by other methods in the budget documents prepared by the Administration each year, which did combine practically all Federal operations. Typically, however, they were not the primary focus of attention. For illustration of these other methods of presentation, see the Budget for Fiscal Year 1968, Special Analysis A, pp. 394-402.

SOURCE AND USE OF FUNDS FOR SOCIAL SECURITY AND MEDICARE

[In percent, FY 1984]



Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986*, Office of Management and Budget, February 1986

Social security's inclusion in the unified budget became controversial in the late 1970's and again in the 1981-82 period, when various benefit reductions were proposed for budgetary purposes, some of which became law. The issue probably reached its peak in the latter half of 1981 and in early 1982, after Congress had passed a number of benefit reductions as part of the Omnibus Budget Reconciliation Act of 1981, P.L. 97-35. The social security minimum benefit, student benefit, and lump sum death benefit, as well as a number of other benefit provisions, were eliminated or significantly restricted. Numerous proposals then gained momentum in Congress either to make social security and medicare more visible components of the unified budget or to remove them altogether from the budget process.

An amendment by Senators Eagleton and Stennis was passed by the Senate on July 2, 1981, as part of the Economic Recovery Tax Act of 1981, P.L. 97-34, that would have required that the financial projections and assumptions for social security and medicare be displayed more prominently in the unified budget. It was dropped in conference, but was reintroduced by Senator Eagleton on October 14, 1981, and again passed by the Senate when the Social Security Amendments of 1981, P.L. 97-123, were considered.[4] It too was dropped in conference. However, the issue remained highly visible during the first half of 1982 as Congress struggled to find measures to reduce burgeoning Federal budget deficits. Although it became apparent that the social security system had deficits of its own that would have to be addressed shortly, considerable suspicion surfaced that budgetary problems were again igniting a thrust to reduce social security benefits. The issue became so sensitive that a $40 billion reduction in Federal budget deficits, to be achieved through "unspecified" changes in social security, recommended by the Senate Budget Committee in attempting to establish budget targets for fiscal years 1983-85, was dropped. The recommendation did not explicitly state whether the deficit reductions would arise from benefit reductions or tax increases, but it did specify that the deficit reductions would be the expected result of the recommendations to come later in the year from the National Commission on Social Security Reform.[5] The matter never came to a vote in the Senate.

Later in the year the National Commission on Social Security Reform—the panel selected by the President and Congress to address social security's looming financial problems—considered the issue and included a recommendation in its January 1983 report that social security and medicare (including both hospital insurance and supplementary medical insurance) should be taken out of the unified budget.[6] (See appendix H.)

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[4] Among other provisions, this law provided for interfund borrowing between the social security and hospital insurance trust funds and restored the minimum benefit for current beneficiaries.

[5] U.S. Congress. Senate. Committee on the Budget. Report on S. Con. Res. 92, the First Concurrent Resolution on the Budget, FY 1983. Senate Report No. 97-385, 97th Cong., 2d Sess. Washington, U.S. Govt. Print. Off., 1982. p. 10.

[6] The Commission reported its recommendations to the President and Congress on January 20, 1983. Most of its recommendations were enacted by Congress in March 1983 and signed into law by President Reagan on April 20, 1983.

When the House Ways and Means Committee took action on the Commission's recommendations, it included a provision in H.R. 1900, which subsequently was passed by the House, to display the four social security and medicare trust funds in the budget separately through FY 1988,[7] and beginning in FY 1989, to remove the social security and hospital insurance trust funds from the budget process altogether.

The Senate-passed version of the 1983 amendments was silent on the issue. The bill reported out of the Senate Finance Committee contained no similar measure, and two amendments related to it were defeated when the bill subsequently was taken up on the Senate floor. The first was an amendment by Senator Heinz that would have required that the social security and medicare trust funds be separately displayed in the budget through FY 1988, and then would have removed the social security trust funds (not the medicare ones) from the budget beginning in FY 1989. Further, it would have removed them explicitly from the so-called reconciliation process. Under current law, the reconciliation process, if exercised, potentially can force the appropriate committees of jurisdiction to report out legislative changes in social security and medicare to meet budget targets. The amendment was defeated by a point of order raised by Senator Domenici on the grounds that it violated a provision of the budget act that precludes a bill dealing with the budget from being considered in either House unless it has been reported out by the appropriate Budget Committee. A motion by Senator Heinz to waive this requirement was defeated. Another amendment offered by Senator Riegle, that would have retained social security and medicare in the budget target-setting process (although having them displayed more prominently) but would have explicitly exempted them from the reconciliation process, was defeated on a "tabling" motion of Senator Dole.

When the conferees for the House and Senate met to resolve the differences between their respective bills, they agreed to a modified version of the House-passed provision, calling for social security and medicare to be displayed more prominently in the budget (as a separate function of the budget) through FY 1992 and then to remove social security and hospital insurance from the budget entirely beginning in FY 1993. Supplementary medical insurance would remain a part of the budget, but as a separate major category.

It has been pointed out that the enacted provision is somewhat ambiguous about whether instructions could still be given to the appropriate spending committees to make changes in social security and hospital insurance as part of the budget reconciliation process. The language of the provision states that these programs

> shall not be included in the totals of the budget of the U.S. Government as submitted by the President or of the congressional budget and shall be exempt from any general

[7] The four trust funds are referred to in the Social Security Act as the Old-Age and Survivors Insurance, Disability Insurance, Hospital Insurance, and Supplementary Medical Insurance Trust Funds.

> budget limitation imposed by statute on expenditures and net lending (budget authority). . . . [See appendix I for the entire text of the provision.]

There seems to be little question that social security and hospital insurance projections are not to be considered in establishing budget totals in FY 1993 and thereafter. However, one interpretation of this language is that it pertains only to the development of overall budget totals, i.e., the budget resolution phase of the process, and not to the reconciliation phase. The argument is that the omission of any mention of the reconciliation phase was intentional. An alternative interpretation is that the only reason for excluding social security and hospital insurance from the budget totals and to exempt them from any budget limitations is to remove them from the budget process entirely. The purpose of a reconciliation bill is to reconcile revenue and program expenditures with the budget totals that Congress has established. It might be difficult to justify a reconciliation instruction to alter social security or hospital insurance when neither of them is included in the budget totals.

This latter interpretation would seem to be consistent with the report of the Committee on Ways and Means, which states:

> Your Committee believes that it would be desirable to provide assurance that changes in the social security will not be made on the basis of budgetary considerations.[8]

The conference report is silent with regard to legislative intent, except for the statement that the conferees agreed to the House provision with a later effective date.

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[8] U.S. Congress. House. Committee on Ways and Means. Report on H.R. 1900, the Social Security Act Amendments of 1983. House Report No. 98-25, 98th Cong., 1st Sess. Washington, U.S. Govt. Print. Off., 1983 p. 70.

III. BASIC QUESTIONS AND ANSWERS

Social Security, Medicare and Federal Income and Outgo

The unified Federal budget is a summary of all the financial transactions that the Government will engage in over a period called a fiscal year. It runs from October 1 to September 30. Typically, budget projections are made for 1 to 5 years. The budget shows total Federal receipts and expenditures and the difference between them, i.e., a surplus or deficit. Detailed breakdowns showing the source of receipts and the nature of expenditures for each Federal program and activity are included in the budget documents submitted by the President. Congressional budget resolutions also summarize the totals, but include only broad functional breakdowns.

Both the President's budget and the Congressional budget resolution count the income received by the Government in the form of social security and medicare taxes in arriving at total budget receipts, and the outlays made by the Government for social security and medicare in arriving at total budget outlays. The President's budget documents show the detailed breakdown of the financial operations of the social security and medicare trust funds during the relevant fiscal periods. Congressional budget resolutions show the total income and outgo of the social security and medicare trust funds in two separate functions of the budget.

—Did the inclusion of social security and medicare in the unified budget cause the resources of these programs to be used for other purposes?

No; the creation of a unified budget only changed the way Federal financial activities would be summarized. The Treasury Department's day-to-day accounting practices did not change.

Over the years people frequently have misunderstood what inclusion of the social security and medicare programs in the unified budget means, perceiving it as somehow allowing the "dedicated" resources of these programs to be used for other Government programs.

The shift to a unified budget did not alter the financial management of the social security and medicare programs (or that of any other part of the Government), but involved only a new method of portraying the Federal budget. The financial operations of the U.S. Treasury, which account for trust fund receipts and expenditues separately from other Federal funds, were not altered in any way.

A separate trust fund for the social security retirement program was created by amendments to the Social Security Act enacted in 1939. Other distinct trust funds also were established for disability insurance and the two medicare programs when they were enacted later. When the unified budget was created in FY 1969, there was no merging of the financial transactions recorded in these trust fund accounts with those occurring within the general fund of the treasury. Nor did the day to day management of these trust funds change.

In effect, the Government's bookkeeping remained the same. What changed was the way in which the bookkeeping was summarized and highlighted each year.

—Did the inclusion of social security and medicare in the unified budget cause benefit changes in these programs?

Various budget acts over the past 6 years have included measures changing social security and medicare benefits and financing provisions. However, financing difficulties also were emerging for their trust funds, and concern was mounting about their rapid growth, irrespective of their budget effects. Therefore, the extent to which the inclusion of these programs in the budget process brought changes to them that would not have occurred in some other way is unclear.

In recent years, various types of social security and medicare reductions have been considered and enacted in the course of congressional formulation of the budget. Separate reconciliation and deficit reduction laws enacted since 1980 have incorporated numerous changes in social security benefits and medicare reimbursement provisions.

As a result, it is sometimes argued that the inclusion of these programs in the unified budget caused policymakers in the Administration and Congress to view social security and medicare in a new way—i.e. that social security and medicare policies were being formulated subject to overall budgetary constraints, rather than simply by the financial status of their trust fund accounts.

However, since the early 1970's the social security and medicare trust funds also have been repeatedly confronted with short- and long-range financial problems. The financial problems became particularly acute in 1977 and again in 1981-83, the latter period coinciding with one in which there was considerable emphasis on constraining Federal expenditures. Furthermore, the rapid growth of disability insurance enrollment in the 1970's and the persistently high inflation in the health sector of the economy also have given impetus to concern about the growth in the cost of these programs.

It is similarly important to note that even before adoption of the unified budget, the formulation of Federal fiscal and economic policy did not ignore the financial implications of social security and medicare. The budget statements and accompanying documents submitted by President Johnson each year from 1964 to

1968, for instance, emphasized the so-called "consolidated financial statement" which basically presented Federal financial operations in the same way as the unified budget does now. It would be difficult to find an example of a cut in the benefits of these programs within the context of budget making in that earlier period. However, it is likely that fiscal limitations on overall Government resources affected both the timing and size of various expansions of these programs.

In summary, the unified budget and the congressional budget process appear to have provided vehicles for imposing constraints on social security and medicare, but it is a matter of conjecture about the extent to which the process itself vis-a-vis other fiscal considerations affected the development of these programs.

—How do social security and medicare affect the financial operations of the Federal Government?

Social security and medicare affect the amount of funds the Government has available to spend or must raise through taxes or public borrowing in order to function, regardless of whatever formal relationship they have to the budget.

The basic financial relationship of social security and medicare to the Federal Government also is subject to considerable misunderstanding. These programs are often perceived to have no impact upon, nor reliance upon, Federal resources and borrowing needs. The Government is viewed as simply an agent administering an insurance policy. Social security and medicare contributions are thought to flow into special accounts kept completely separate from other receipts of the Treasury. Therefore, people frequently ask why these programs are brought up in discussions of how to reduce the deficit and the corresponding amount the Government borrows from the public.

First, it is important to understand that regardless of whether or not these programs are incorporated into the official budget figures, the receipts and expenditures they cause are Federal ones. Social security and medicare contributions are Federal taxes authorized under the Internal Revenue Code and the benefits payments are disbursements from the Treasury Department authorized under the Social Security Act. Moreover, Congress has expressly reserved the right in the Social Security Act to alter, amend, or repeal any provision of the act (section 1104), and the Supreme Court has long held that social security's provisions are not like those of an insurance contract (Fleming v. Nestor, 363 U.S. 603 (1960)). Thus, as with other Federal social programs, Congress with rational justification can unilaterally alter social security's and medicare's financing or benefit provisions.

Second, social security and medicare are integrally related to the financial affairs of the rest of the Government. Although excluded from the budget before 1969, social security and medicare have indirectly affected the financial needs of the rest of the Government since their inception. This involvement arises in part out of provi-

sions requiring that any excess social security taxes not needed to meet the immediate expenditures of the program must be invested in U.S. Government securities. The actual excess funds used to purchase these securities ultimately are deposited into the general fund and then used to help meet other immediate governmental expenses. In effect a loan is made from one arm of the Government to another. When these loaned funds are later needed by social security or medicare because their current receipts are insufficient to cover immediate costs, the Treasury Department repays the loans by redeeming the securities.

How are these excess funds used? There is no definitive answer. They probably have been used in a variety of ways over the years. Did they reduce the amount the Government had to borrow from the public to support its other functions? Possibly. But it is also possible that excess social security and medicare receipts have permitted the Government to spend more or tax less to conduct its other functions. To the extent they did so, borrowing from the public was unchanged.

When the social security or medicare trust funds need to liquidate their securities (i.e., call in some of the loans they made to the Government) in order to be able to meet their benefit commitments, where does the Government get the money? There is no definitive answer to that question either. When this occurs, the Government again has three options: borrow more from the public, increase taxes, or spend less.

A third form of involvement of social security and medicare with the Government also arises because there are internal transfers between social security and medicare and the general fund of the Treasury. Social security and the hospital insurance portion of medicare rely mostly, but not exclusively, upon earmarked payroll taxes and premiums paid by the public. Payments also are made from the general fund to these trust funds for a variety of reasons—e.g. for interest on previously purchased securities, and the Government's share of the social security and medicare tax as an employer. The supplementary medical insurance portion of medicare relies in part upon premiums paid by people enrolled in the program, but primarily upon financial infusions from the general fund of the Treasury (the ratio of premiums receipts to general fund infusions is now roughly one to three). Thus, social security and medicare do draw directly upon the general resources of the Government to some extent.

—Does a cut in social security or medicare benefits result in real savings for the Government. Does it simply create a future spending obligation?

A cut in social security or medicare benefits or an increase in their tax revenues has the same effect on the Government's borrowing demands upon the public as any other spending reduction or tax increase. Such actions, by themselves, would not authorize an increase in future spending merely because they cause a higher amount of Federal securities to be posted to the trust funds. Benefit

provisions of the law would have to be explicitly changed to increase future spending.

If social security or medicare benefits were cut or their revenues increased as a means of reducing the Federal budget deficit and the corresponding borrowing demands of the Government upon the public, the amount of Federal securities held by the trust funds would rise. The amount the Treasury borrows from the private sector would decline, but there would be a corresponding increase in the amount it borrowed from within the Government itself, i.e. from another Federal source. It, therefore, has been argued that cuts in social security and medicare benefits and increases in social security and medicare revenues do not reduce the borrowing demands of the Government.

Enactment of an increase in social security or medicare revenues, however, does not by itself authorize any increase in future benefits or spending merely because it causes a higher amount of Federal securities to be posted to the trust funds. Social security and medicare benefits are not like some private pension arrangements where benefits are determined directly from the amount of taxes people pay. Benefit provisions of the Social Security Act have to be changed explicitly to increase future payouts.

Similarly, a cut in benefits will not defer spending to a future time merely because it causes a higher amount of trust fund reserves. Unless the cut is explicitly accompanied by a provision that calls for higher benefit payout at a later time, no new obligation arises to create new spending later.

In effect, the larger amount of Federal securities posted to the trust funds increases the IOU's of the Government to the trust funds, i.e. to itself. The only time those additional IOU's would result in new future spending is when the trust funds would be insolvent without them. At that juncture, the trust funds could call in the IOU's—i.e. draw upon the general fund—to make benefit payments they would not otherwise be able to make. The latest social security and medicare trustees' report projections do not anticipate trust fund deficiencies for more than 60 years under the combined social security cash benefit programs, and not until the late 1990's under the medicare program.[9]

If the intent of deficit reductions is to reduce or avoid the adverse effects upon the economy of the Government's borrowing large sums of money from the public—i.e. soaking up resources from the pool of potential investment resources in the private sector—then the relevant question is how much those external borrowing demands are reduced. If a surplus of social security or medicare funds is made available by a benefit reduction or a tax increase, which the Government can then borrow, the amount it has to borrow from the public is that much less. In this sense, a cut in social security or medicare benefits or an increase in their revenues has the same effect upon the Government's external borrow-

[9] Based upon the Intermediate II-B forecasts in the respective reports.

ing demands as any other spending reduction or tax increase. The internal IOU's it has created for itself would have no effect upon the amount borrowed from the private sector at any time in the near term future. And since those internal IOU's would be needed only when the programs otherwise would become insolvent, and would then only temporarily delay their insolvency, whether or not those IOU's would actually result in new spending would be determined more by how Congress addressed those financing crises, and by how it responded to the overall fiscal demands upon the general fund at that point, than by whether an IOU is given to the trust funds today.

Social Security, Medicare, and the National Debt

The national debt is the amount of money the Government has borrowed to help finance its operations that is still owed to lenders at any given time. Unlike a Federal budget deficit, which represents the amount by which the Government's outgo exceeds its income during a relatively short time frame (usually from 1 to 5 fiscal years), the national debt represents the amount of the Government's outstanding liabilities—both the principal and interest—which has accumulated over many years.

When social security's and medicare's income exceeds their expenditures, the law requires that the excess income be invested in U.S. Government securities. Although these obligations may be viewed as loans from one part of the Federal Government to another, they are legal liabilities of the Government and are counted as part of the national debt.

In effect, the national debt might be viewed as having two components: one which is comprised of obligations owed to private parties and other non-Federal entities—what might be referred to as debt held by the public [10]—and another which is comprised of obligations owed to various Federal trust funds and agencies (federally held debt).

New Federal securities purchased with excess social security or medicare income are credited to the trust funds and become part of the federally held portion of the debt. Conversely, when the trust funds spend more than they take in, the Treasury cashes in some of their securities. In effect, it repays the loans it received so that the trust funds will have sufficient cash to meet their immediate expenses. The cashed-in securities are then no longer a part of the national debt.

Thus, in theory, with all other things held constant, an increase in the balance of the social security or medicare trust funds would cause the national debt to rise by a corresponding amount. However, the relationship of social security's and medicare's financial operations to the national debt is a complex one. No simple rule of thumb can describe how changes in the financial operations of

[10] These non-Federal entities consist not only of private individuals and institutions but of State and local governments and foreign governments as well.

their trust funds or their budget impact will alter the level of the national debt, because usually all other things are not held constant. First, social security's and medicare's impact on the Federal budget rarely is the same as their impact on the national debt. Second, whether or not their investment in or disinvestment of Government securities causes the national debt to rise or fall is not shown solely by what happens to the level of securities posted to their trust funds. It depends in part on whether the change in the level of the investments causes only a change in the internal bookkeeping of the Treasury or whether it causes a change in overall Government receipts and expenditures. It also depends on how the Government uses surplus social security and medicare receipts and how it obtains resources to liquidate trust fund holdings when necessary.

—Are there differences between social security's and medicare's impact on the national debt and their impact on the Federal budget?

The federally held portion of the national debt rises in any period when the trust funds take in more than they spend. In effect, excess income to the trust funds *from any source* causes the amount of securities held by the trust funds to rise, thereby increasing the internal debt of the Government.

If external receipts to the trust funds—taxes and premiums received from the public—exceed the programs' payments to the public, the Federal budgetary situation for that particular period is improved; the deficit is lower or the surplus is larger than it otherwise would have been, and the federally held portion of the debt rises by a similar amount. However, if excess income to the trust funds arises from internal transfers from the general fund to the trust funds, the budgetary situation generally is the same as if the transfers did not take place, but the amount of Federal securities held by the trust funds rises in the same way that it would in response to excess external receipts.[11]

There have been situations in which the federally held portion of debt rose when social security and medicare made the budget deficit larger. In these instances, the programs' expenditures were larger than their external receipts, but the internal transfers they received coupled with the external receipts—which together comprise total trust fund income—exceeded the programs' expenditures (and the excess was invested). Hence, the balance of Federal

[11] While an internal transfer from the general fund to the social security trust funds typically is characterized as not in and of itself affecting a budget deficit or surplus, this is not always true. If the transfer from the general fund permits the trust funds to make expenditures that they would not otherwise be able to make because of insufficient revenues and reserves, the budget deficit would rise or the surplus would be smaller. Similarly, if the internal transfer is viewed as a substitute for another source of financing, the overall budget deficit or surplus is affected even if the general fund infusion is simply held in reserve by the trust funds. In 1984, for example, the trust funds were credited with amounts representing higher employee social security taxes, but the tax increase actually was not imposed. (By virtue of a tax credit, the employee was permitted to continue paying at the 1983 rate.) The overall budget deficit for 1984 was larger, by the amount of the credit, than it would have been if the improvement in trust fund financing had been achieved by a tax increase actually paid by employees.

securities held by the trust funds rose even though the programs were, in effect, increasing the budget deficit.

—Is the national debt always increased when income to the trust funds exceeds their outgo?

When income to the social security or medicare trust funds exceeds their expenditures, the federally held portion of the national debt rises, but the total national debt may or may not change, and, if it does change, it may be by a different amount.

When excess income to the trust funds results from internal transfers from the general fund, the federally held portion of the national debt rises to reflect the additional securities issued to the trust funds. The portion of the debt held by the public remains the same, since the increase in the trust funds' securities was the result of an internal transfer. When the two portions of the national debt are considered together, the overall total is higher.

These internal transfers also could cause the total national debt to rise even when income and outgo of the trust funds were the same amounts. If the Treasury borrowed money from the public to pay that portion of the trust funds' income which was a transfer from the general fund, the portion of the debt held by the public would rise, while the federally held portion would not change.

On the other hand, when excess income to the trust funds is due to excess external receipts, the total national debt may not rise at all, or may rise by a different amount. The effect on the debt basically depends on what use the Government makes of the excess external receipts.

As explained earlier, excess tax and premium receipts are deposited into the general fund of the Treasury, and the trust funds are issued additional Federal securities. The money then becomes available for the Government to use to: (1) reduce the level of debt held by the public or maintain it at a level below what it otherwise might be, (2) increase spending (above what it otherwise might be), or (3) reduce taxes (below what they otherwise might be).

If the Federal securities issued to the trust funds replace a corresponding portion of the debt held by the public, the total national debt would not change. In effect, debt held by a Federal entity would be substituted for debt held by the public. In other words, if the social security or medicare trust funds were projected to grow because of excess tax receipts and premiums, the total national debt would be projected to remain the same, provided one made the assumption that the excess external receipts would be used to reduce the portion of the debt held by the public.

Alternatively, if excess external receipts permitted Congress, in making aggregate fiscal policy decisions, to maintain other Federal taxes at levels below what they otherwise might be, or to increase other Federal spending above what it otherwise might be, the growing surplus in the trust funds would result in an increase in the total national debt. In effect, the federally held portion of the

national debt would rise while the portion held by the public would not change.

—Is the national debt always reduced when social security or medicare has to reduce its reserve of Federal securities?

When social security or medicare spending exceeds income to one or more of the respective trust funds, reserves have to be liquidated to meet the shortfall. In this situation, some of the Federal securities posted to the trust funds are redeemed by the Treasury and the federally held portion of the debt declines by the amount of the "cashed-in" Federal securities.[12]

Basically, the answer to how the *overall* national debt is affected depends upon how the Government obtains the resources to repay the social security or medicare loans.

If the Government borrows money from the public to repay the loans, the amount of debt held by the public would rise. As a result, the decline in the federally held portion of the debt—caused by the liquidation of securities held by the trust funds—would be offset by an increase in debt held by the public. And the total national debt would remain the same.

Alternatively, if the Government came up with the resources to repay the loans by reducing spending on other activities or by increasing other taxes, the amount of debt held by the public would be unchanged, but federally held debt would decline. As a result, the overall national debt would be lower.

—How are the Government's interest costs affected by social security and medicare?

Since the law requires that securities issued to the social security and medicare trust funds earn interest at rates comparable to those of long-term Federal securities sold on the open market, the total interest costs of the Government are affected by changes in the reserves held by the trust funds. However, the issuance of new securities to the trust funds does not always result in higher interest costs to the Government.

If excess external social security or medicare receipts were used to reduce the amount of debt held by the public, new debt would be incurred to the trust funds, substituting for debt held by the public. As a result, interest payments to the trust funds would rise, but interest payments to the public would decline. From the standpoint of the overall budget, however, annual budget deficits would be lower because interest payments to the public would be smaller. Interest paid to the public—often referred to as "net" interest on the debt—is a Federal outlay, whereas interest paid to the trust funds is not. It is considered a transfer from one Government account to

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[12] Under the law, special Federal securities are issued to the social security and medicare trust funds that can be redeemed at any time, even prematurely, at full par value and without penalty.

another and, thus, has no impact on budget deficits. Net interest on the debt is determined in part by subtracting interest paid to the social security, medicare and other Federal trust funds from the aggregate interest costs of the Government.

If excess income to the trust funds arises from internal transfers from the general fund, the interest accruing on the new securities issued to the trust funds would raise the overall interest costs of the Government. However, interest outlays from the Government to the public would be unaffected and thus the budget deficit would be unaffected.

On the other hand, if the trust funds had to liquidate some of their securities because their current income was less than their expenditures, this would not necessarily reduce the interest costs of the Government. If the Government borrowed from the public in order to come up with the cash to liquidate the securities held by the trust funds, interest payments to the public would rise and interest payments to the trust funds would decline. The overall budget deficits, however, would rise as interest payments to the public rose. The lower interest payments to the trust funds, once again, would have no impact on budget deficits, since they are simply smaller internal transfers between two Government accounts.

If, alternatively, the funds needed to liquidate the securities were obtained by keeping Government spending lower than it otherwise would be or by raising other Government taxes, new interest outlays to the public would not arise and interest payments to the trust funds would fall. The result would be lower overall Government interest costs.

—Would the national debt be different if social security and medicare were removed from the budget?

Moving social security and medicare off-budget would not, on its own, affect the national debt. The securities held by the trust funds would still be obligations incurred by the Federal Government, and therefore part of the national debt.

If, however, removing social security and medicare from the budget caused Congress to make budgetary decisions that resulted in different levels of overall income and outgo to and from the Government than if they were a part of the budget, the national debt could be affected.

—Are social security and medicare affected when the so-called "debt ceiling" is reached?

With the exception of a few relatively small forms of obligations issued by the Treasury Department and certain other Federal agencies (e.g., the TVA, Postal Service, et al.), the vast bulk of liabilities incurred by the Federal Government, including those to the social security and other Federal trust funds, are subject to an aggregate limitation—the so-called debt ceiling—which prescribes a

maximum amount of Government liabilities that can be outstanding. Congress adjusts the level of this limitation by law from time to time.

Frequently, when the Government's liabilities are approaching the debt ceiling, the question is raised of whether social security and medicare benefits can be paid when the ceiling is reached.

Certainly any existing cash balance or new receipts in the Treasury attributable to social security and medicare taxes and premiums could be used to meet the program's obligations. In addition, other funds could be obtained by liquidating securities held by the trust funds with the proceeds of new securities issued to the public. In this case, the total amount of debt outstanding would not change, since the decline in federally held debt would offset the rise in debt issued to the public. Thus, social security and medicare typically would be able to meet their benefit obligations whenever the debt ceiling is reached.

Theoretically, however, their payments could be held up when the debt ceiling was reached, if their cash balances and reserves were very low, and they needed their internal governmental receipts to meet their obligations. Because the Treasury would be unable to borrow (i.e., issue new securities to the public), it might be unable to make the internal transfer to the trust funds since doing so would result in the issuance of social security or medicare checks that the Treasury would not have the cash to cover.

Similarly, the Treasury might be unable to issue new securities to the trust funds based on the internal transfers because doing so might raise the Government's liabilities above the debt ceiling. Thus, the trust funds potentially could lose interest until the debt ceiling was raised and new securities were issued to them.

The effects the debt ceiling could have on social security and medicare would not change by removing these programs from the budget.

IV. BASIC DATA AND PROJECTIONS

This section of the report provides historical data and future projections of the impact of social security and medicare on the budget and on overall Government finance. These are summary tables. More detailed historical tables can be found in appendix A.

Impact of social security and medicare on the Federal budget

The tables in this section attempt to show the relative size of social security and medicare receipts and expenditures in comparison to overall Federal receipts and expenditures, and what the Federal budget deficits or surpluses would look like with and without inclusion of the financial operations of the social security and medicare programs.

—Historical data

Table 1 shows what percentages of Federal receipts and expenditures have been attributable to social security and medicare from fiscal years 1940 through 1984. (For purposes of this analysis, the financial operations of the Federal Government were aggregated for the period from fiscal year 1940 to 1968, even though there was no unified budget during these years.) It shows that social security and medicare receipts and outlays have grown steadily as a percent of overall Federal receipts and outlays since the inception of the programs. However, their share of Federal outlays appears to have leveled off in recent years while their share of Federal revenues continues to climb.

Table 1.—SOCIAL SECURITY AND MEDICARE RECEIPTS AND OUTLAYS AS A PERCENT OF TOTAL FEDERAL RECEIPTS AND OUTLAYS, FY 1940–84

[In percent]

Fiscal year	Receipts			Outlays		
	Social security	Medicare	Social security and medicare	Social security	Medicare	Social security and medicare
1940	8.4		8.4	0.3		0.3
1941	7.9		7.9	.7		.7
1942	6.1		6.1	.4		.4
1943	4.7		4.7	.2		.2

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Table 1.—SOCIAL SECURITY AND MEDICARE RECEIPTS AND OUTLAYS AS A PERCENT OF TOTAL FEDERAL RECEIPTS AND OUTLAYS, FY 1940–84—Continued

[In percent]

Fiscal year	Receipts			Outlays		
	Social security	Medicare	Social security and medicare	Social security	Medicare	Social security and medicare
1944	3.0		3.0	.2		.2
1945	2.9		2.9	.3		.3
1946	3.2		3.2	.6		.6
1947	3.8		3.8	1.4		1.4
1948	3.9		3.9	1.9		1.9
1949	4.3		4.3	1.7		1.7
1950	5.3		5.3	1.8		1.8
1951	6.0		6.0	3.4		3.4
1952	5.4		5.4	3.1		3.1
1953	5.9		5.9	3.6		3.6
1954	6.6		6.6	4.7		4.7
1955	7.8		7.8	6.5		6.5
1956	8.6		8.6	7.8		7.8
1957	8.5		8.5	8.7		8.7
1958	10.1		10.1	10.0		10.0
1959	10.5		10.5	10.6		10.6
1960	11.5		11.5	12.6		12.6
1961	12.8		12.8	12.8		12.8
1962	12.3		12.3	13.4		13.4
1963	13.3		13.3	14.2		14.2
1964	14.5		14.5	14.0		14.0
1965	14.3		14.3	14.8		14.8
1966	14.6	0.7	15.3	15.4	0.0	15.4
1967	16.4	1.8	18.2	13.8	1.7	15.5
1968	16.3	2.3	18.6	13.4	2.6	16.0
1969	15.5	2.4	17.8	14.9	3.1	18.0
1970	17.4	2.5	19.8	15.5	3.2	18.6
1971	19.2	2.6	21.8	17.1	3.2	20.2
1972	19.2	2.5	21.8	17.4	3.2	20.7
1973	20.0	3.3	23.3	20.0	3.3	23.3
1974	20.5	4.0	24.5	20.7	3.6	24.3
1975	22.4	4.0	26.4	19.5	3.9	23.3
1976	22.3	4.0	26.3	19.9	4.3	24.1
1977	21.6	3.8	25.4	20.8	4.7	25.5
1978	21.4	4.2	25.5	20.5	5.0	25.4

Table 1.—SOCIAL SECURITY AND MEDICARE RECEIPTS AND OUTLAYS AS A PERCENT OF TOTAL FEDERAL RECEIPTS AND OUTLAYS, FY 1940–84—Continued

[In percent]

Fiscal year	Receipts			Outlays		
	Social security	Medicare	Social security and medicare	Social security	Medicare	Social security and medicare
1979	21.2	4.3	25.4	20.7	5.3	25.9
1980	21.9	4.5	26.4	20.1	5.4	25.5
1981	21.7	5.1	26.8	20.6	5.8	26.4
1982	23.2	5.6	28.8	20.9	6.2	27.2
1983	24.5	5.9	30.5	21.1	6.5	27.6
1984	25.3	6.0	31.3	20.9	6.8	27.7

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1986.

Table 2 shows what the budget surpluses and deficits would have been from FY 1969 through FY 1984, if all or parts of social security and medicare had not been included in the budget. It compares these figures to the actual unified budget surpluses and deficits that occurred. The table illustrates that inclusion of social security and medicare in the budget has not always improved the budget picture. The budget deficits would have been smaller in 7 of the 16 years, FY 1969–84, if the social security cash benefit programs (OASDI) had been excluded. They would have been smaller in 6 of those years if medicare also had been excluded. It should be noted that while the budget may have benefited from inclusion of social security and medicare in the remaining years, this results in part from not having counted transfers from the general fund to the trust funds as outlays. These internal transfers would have shown up as outlays if the budget had been de-unified. As shown later in table 6, actual receipts from the public for social security and medicare were less than the programs' expenditures in all but 2 of the 16 years, FY 1969–84.

Table 2.—UNIFIED FEDERAL BUDGET DEFICITS WITH AND WITHOUT SOCIAL SECURITY AND MEDICARE, FY 1969–84

[In billions of dollars]

Fiscal year	Unified budget deficit (−) or surplus (+)					
	Actual	If OASDI had been excluded	If HI had been excluded	If OASDI & HI had been excluded	If SMI had been excluded	If all had been excluded
1969	+3.2	−0.5	+2.7	−1.1	+3.2	−1.2
1970	−2.8	−8.7	−3.5	−9.4	−2.5	−9.0
1971	−23.0	−26.1	−23.5	−26.5	−23.3	−26.7
1972	−23.4	−26.4	−23.1	−26.2	−23.6	−26.4
1973	−14.9	−15.4	−16.1	−16.9	−15.2	−17.2
1974	−6.1	−8.0	−9.7	−11.5	−6.7	−12.0
1975	−53.2	−55.3	−55.2	−57.2	−53.4	−57.4
1976	−73.7	−70.5	−74.7	−71.5	−73.5	−71.2
1977	−53.6	−49.7	−53.8	−49.9	−54.7	−51.0
1978	−59.0	−54.7	−59.7	−55.4	−60.7	−57.1
1979	−40.2	−38.2	−41.7	−39.7	−41.2	−40.8
1980	−73.8	−72.7	−74.9	−73.8	−73.3	−73.3
1981	−78.9	−73.9	−82.5	−77.5	−78.1	−76.7
1982	−127.9	−120.0	−130.7	−122.7	−130.0	−124.8
1983	−207.8	−208.0	−213.2	−213.4	−208.6	−214.2
1984	−185.3	−185.6	−188.8	−189.0	−187.5	−191.2

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* U.S. Office of Management and Budget, February 1985.

—CBO projections for FY 1985–90

Using Congressional Budget Office estimates of income and outgo under current policy—its so-called baseline forecast—table 3 shows what the projected budget deficits would be from FY 1985 through FY 1990, if all or parts of the financial operations of social security and medicare were excluded from the baseline figures.

Table 3.—CBO PROJECTED UNIFIED BUDGET DEFICITS WITH AND WITHOUT SOCIAL SECURITY AND MEDICARE, FY 1985–90

[In billions of dollars]

Fiscal year	Unified budget deficit (–)			
	OASDI, HI, & SMI are included [1]	If OASDI is excluded	If OASDI & HI are excluded	If OASDI, HI, & SMI are excluded
1985	–213.3	–219.5	–224.2	–226.1
1986	–227.4	–233.8	–244.2	–244.5
1987	–244.7	–255.2	–266.6	–267.0
1988	–243.6	–279.6	–284.5	–285.1
1989	–232.4	–282.0	–284.9	–285.7
1990	–220.9	–288.2	–288.8	–289.7

[1] Present law.

Source: Congressional Budget Office, September 1985, based on the baseline budget forecast for the First Concurrent Resolution on the Budget, FY 1986.

Table 3 shows that the projected budget deficits would be increased in all years from FY 1985 through FY 1990, if all or parts of the financial operations of social security and medicare were to be removed from the budget. Table 4 shows how much larger the budget deficits would be from those projected to arise using the current baseline figures. Under the projections, the de-unified budget deficits would grow larger by increasing amounts between FY 1986 and FY 1990. Removal of all four social security and medicare programs would add $17.1 billion to the projected budget deficit for FY 1986, but by FY 1990, it would increase the projected deficit by almost $69 billion.

It should be noted that social security's and medicare's relationship to and impact upon the Federal budget are different from their overall impact on aggregate Federal financial operations. If social security and medicare are removed from the unified budget, the remaining de-unified budget figures would be larger than otherwise. However, the aggregate income and outgo to and from the Government would be unchanged.[13]

[13] Assuming the removal of social security and medicare from the budget process does not alter subsequent budgetary decisions to such an extent that different levels of overall income and outgo result.

Table 4.—INCREASES IN PROJECTED BUDGET DEFICITS RESULTING FROM REMOVAL OF SOCIAL SECURITY AND MEDICARE FROM THE BUDGET, FY 1985–90

[In billions of dollars]

Fiscal year	Amount of increase in the budget deficits		
	If OASDI is excluded	If OASDI & HI are excluded	If OASDI, HI and SMI are excluded
1985	6.2	10.9	12.8
1986	6.4	16.8	17.1
1987	10.5	21.9	22.3
1988	36.0	40.9	41.6
1989	49.6	52.5	53.3
1990	67.3	67.9	68.8

Source: Congressional Budget Office, September 1985, based on the baseline budget forecast for the First Concurrent Resolution on the Budget, FY 1986.

Impact of social security and medicare on overall Federal income and outgo

The question of "what effect do social security and medicare have on the budget?" is different from the question of "what would the budget look like if social security and medicare did not exist?" Even if these programs were removed from the budget, there would still be outlays included in the budget attributable to them. These outlays would be the net intragovernmental transfers from the general fund to the trust funds, that previously had been excluded from the unified budget figures since they were transfers from one Government account to another. In other words, the de-unified budget deficits and surpluses are affected by more than the simple removal of actual tax receipts and expenditures.

But what outlays and revenues would there be if these programs did not exist? Would no program have taken up the "social welfare" functions of social security and medicare if they had not been enacted? How large would Federal income tax receipts have been and how would income tax policies have evolved? For instance, would income tax receipts have been higher because employees would have had higher wages? No one can answer these questions, and thus there is no way of knowing what the budget would look like if social security and medicare did not exist.

Asking "what effect do social security and medicare have on the aggregate financial operations of the Federal Government?" also results in a different answer than if one asks "what effect do these programs have on the budget?" In this case, however, an answer can be given.

The overall effect that social security and medicare have had on Federal budgets is shown by the difference between income and outgo to the trust funds, which include intragovernmental transfers. If trust fund operations for a particular year result in excess income of $5 billion, then not counting the trust fund operations in the budget would worsen the net budgetary figures (increase the remaining deficit or reduce the remaining surplus) by $5 billion.

However, the effect that social security and medicare have on the overall financing of the Federal Government is shown by the differences in the amount of receipts the Government takes in for these programs and the amount it pays out for them. Transfers to and from the general fund and the trust funds are ignored, except for those that result in real income and outgo to and from the Government (e.g. income taxes from taxing social security benefits and the net payment to the railroad retirement board).

The differences between these two ways of viewing social security's and medicare's financial relationship to the Federal Government are shown by the following two tables. Table 5 shows the annual and cumulative differences between income and outgo to the social security and medicare trust funds since the programs began. This would be their budget effect assuming the budget had always been unified. Table 6, on the other hand, shows the differences in actual receipts and expenditures to and from the Government for social security and medicare during those years. This would be their effect on overall Government finance.

The differences have often been substantial between the budget effect of the programs (as illustrated by table 5) and their impact on overall Government finance (as illustrated by table 6). In FY 1984, for instance, the unified budget deficit was lower by about $5.9 billion because social security and medicare were included. However, in FY 1984 social security and medicare tax receipts were $27 billion less than the programs' expenditures. The trust funds were able to meet their obligations because of almost $34 billion in internal transfers posted to them, but this did not lessen the strain that the shortfall of revenues placed on the financing of the rest of the Government.

Table 5.—DIFFERENCES BETWEEN INCOME AND OUTGO OF THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS

[In millions of dollars]

Fiscal year	Differences between income and outgo to the trust funds [1]		
	For social security	For medicare	For social security and medicare
1937	267		267
1938	397		397
1939	516		516
1940	564		564
1941	653		653
1942	829		829
1943	1,041		1,041
1944	1,178		1,178
1945	1,167		1,167
1946	1,028		1,028
1947	1,157		1,157
1948	1,248		1,248
1949	1,263		1,263
1950	1,583		1,583
1951	1,843		1,843
1952	1,864		1,864
1953	1,766		1,766
1954	1,677		1,677
1955	1,098		1,098
1956	1,452		1,452
1957	773		773
1958	546		546
1959	−700		−700
1960	−209		−209
1961	431		431
1962	−1,264		−1,264
1963	−789		−789
1964	632		632
1965	194		194
1966	−630	851	221
1967	3,978	978	4,956
1968	2,581	−92	2,489
1969	3,749	657	4,406
1970	5,853	340	6,193
1971	3,019	659	3,677
1972	3,050	−53	2,996

Table 5.—DIFFERENCES BETWEEN INCOME AND OUTGO OF THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS—Continued

[In millions of dollars]

Fiscal year	Differences between income and outgo to the trust funds [1]		
	For social security	For medicare	For social security and medicare
1973	495	1,775	2,270
1974	1,836	4,071	5,907
1975	2,018	2,121	4,139
1976	−3,220	746	−2,474
1976TQ	−1,405	132	−1,273
1977	−3,899	1,208	−2,691
1978	−4,266	2,377	−1,889
1979	−1,984	2,601	617
1980	−1,120	656	−464
1981	−5,020	2,814	−2,207
1982	−7,937	4,814	−3,123
1983	212	6,226	6,438
1984	262	5,588	5,850
Total: 1937–84	19,777	38,468	58,245

[1] Includes all income and outgo of the trust funds including transfers to and from the general fund of the Treasury.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 6.—DIFFERENCES BETWEEN INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR SOCIAL SECURITY AND MEDICARE

[In millions of dollars]

Fiscal year	Differences between income and outgo to and from the Government [1]		
	For social security	For medicare	For social security and medicare
1937	265		265
1938	382		382
1939	489		489
1940	522		522
1941	597		597
1942	758		758
1943	954		954

Table 6.—DIFFERENCES BETWEEN INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR SOCIAL SECURITY AND MEDICARE—Continued

[In millions of dollars]

Fiscal year	Differences between income and outgo to and from the Government[1]		
	For social security	For medicare	For social security and medicare
1944	1,075		1,075
1945	1,043		1,043
1946	880		880
1947	993		993
1948	1,057		1,057
1949	1,030		1,030
1950	1,322		1,322
1951	1,552		1,552
1952	1,527		1,527
1953	1,380		1,380
1954	1,225		1,225
1955	644		644
1956	939		939
1957	123		123
1958	−172		−172
1959	−1,441		−1,441
1960	−988		−988
1961	−366		−366
1962	−2,097		−2,097
1963	−1,615		−1,615
1964	−257		−257
1965	−740		−740
1966	−1,616	829	−786
1967	2,676	−103	2,573
1968	1,057	−1,156	−99
1969	1,650	−1,297	353
1970	3,186	−1,458	1,727
1971	−29	−1,748	−1,777
1972	−251	−2,274	−2,525
1973	−3,006	−449	−3,455
1974	−1,942	913	−1,030
1975	−2,201	−1,623	−3,824
1976	−7,514	−3,846	−11,360
1976TQ	−1,747	−807	−2,554

Table 6.—DIFFERENCES BETWEEN INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR SOCIAL SECURITY AND MEDICARE—Continued

[In millions of dollars]

Fiscal year	Differences between income and outgo to and from the Government[1]		
	For social security	For medicare	For social security and medicare
1977	−8,251	−5,872	−14,123
1978	−8,470	−6,100	−14,570
1979	−6,079	−6,621	−12,700
1980	−5,350	−8,873	−14,223
1981	−9,409	−8,809	−18,217
1982	−12,497	−12,266	−24,763
1983	−23,403	−16,947	−40,350
1984	−9,873	−17,279	−27,151
Total: 1937-84	−81,988	−95,786	−177,774

[1] Payments to and from the general fund of the Treasury are excluded.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Internal Government transfers to the trust funds: What are they?

Table 7 shows the nature of and amounts of each major form of intragovernmental transfer—i.e. from the general fund—to the social security and medicare trust funds, annually and cumulatively from FY 1937 through FY 1984. These amounts basically account for the differences between the amounts shown in tables 5 and 6.[14] Table 8 shows how much these payments from the general fund represent of the total income received by the trust funds. (See appendix J for a complete list of intragovernmental transfers.)

[14] There also are payments made from the trust funds to the general fund and from one trust fund to another. They are, however, quite small and are equal to only a fraction of the size of the payments made from the general fund to the trust funds. These payments are excluded from the following tables.

Table 7.—MAJOR GENERAL FUND TRANSFERS TO THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS, FY 1937–84

[In millions of dollars]

Fiscal year	Receipts from the public	General fund transfers				
		Interest income	Federal Government's employer's share	SMI Federal contribution	Other intragovernmental receipts	Total intragovernmental receipts
1937	265	2	0	0	0	2
1938	387	15	0	0	0	15
1939	503	27	0	0	0	27
1940	550	43	0	0	0	43
1941	688	56	0	0	0	56
1942	896	71	0	0	0	71
1943	1,131	87	0	0	0	87
1944	1,292	103	0	0	0	103
1945	1,310	124	0	0	0	124
1946	1,238	148	0	0	0	148
1947	1,460	164	0	0	0	164
1948	1,616	191	0	0	1	191
1949	1,690	230	0	0	3	234
1950	2,106	257	0	0	4	260
1951	3,120	287	0	0	4	291
1952	3,594	334	0	0	4	337
1953	4,097	387	0	0	0	387
1954	4,589	439	1	0	12	452
1955	5,081	438	6	0	10	454
1956	6,425	487	18	0	8	513
1957	6,789	557	88	0	5	650
1958	8,049	571	145	0	2	718
1959	8,296	576	164	0	0	741
1960	10,641	563	188	0	28	779
1961	12,109	591	206	0	1	798
1962	12,271	609	221	0	2	832
1963	14,175	582	241	0	2	826
1964	16,366	607	279	0	3	888
1965	16,723	648	283	0	3	934
1966	19,978	648	353	0	7	1,008
1967	27,693	852	475	623	433	2,383
1968	29,108	1,061	510	634	378	2,582
1969	34,254	1,268	611	984	1,185	4,048
1970	39,150	1,718	728	928	1,086	4,461

Table 7.—MAJOR GENERAL FUND TRANSFERS TO THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS, FY 1937–84—Continued

[In millions of dollars]

Fiscal year	Receipts from the public	General fund transfers				
		Interest income	Federal Government's employer's share	SMI Federal contribution	Other intragovernmental receipts	Total intragovernmental receipts
1971	41,972	2,142	727	1,245	1,339	5,453
1972	46,451	2,325	742	1,365	1,089	5,521
1973	55,114	2,523	816	1,431	955	5,725
1974	66,185	3,005	911	2,029	993	6,937
1975	75,616	3,522	1,082	2,330	1,029	7,963
1976	80,321	3,631	1,138	2,939	1,174	8,882
1977	92,494	3,558	1,152	5,053	1,661	11,424
1978	104,502	3,429	1,266	6,386	1,601	12,681
1979	120,521	3,470	1,342	6,841	1,664	13,317
1980	139,370	3,817	1,453	6,932	1,557	13,759
1981	163,855	3,997	1,762	8,747	1,504	16,011
1982	181,624	4,416	2,043	13,323	1,859	21,641
1983	187,219	4,181	2,832	14,258	25,671	46,923
1984	213,555	5,803	3,350	16,811	7,984	33,948
Total	1,888,453	64,671	25,427	93,717	53,257	237,071

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1986.

Table 8.—GENERAL FUND TRANSFERS TO THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS AS A PERCENT OF TOTAL TRUST FUND INCOME, FY 1937–84 [1]

[In percent]

Fiscal year	Receipts from the public	General fund transfers				
		Interest income	Federal Government's employer's share	SMI Federal contribution	Other intragovernmental receipts	Total intragovernmental receipts
1937	99.1	0.9	0	0	0	0.9
1938	96.2	3.8	0	0	0	3.8
1939	94.9	5.1	0	0	0	5.1
1940	92.8	7.2	0	0	0	7.2

Table 8.—GENERAL FUND TRANSFERS TO THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS AS A PERCENT OF TOTAL TRUST FUND INCOME, FY 1937–84 [1]--Continued

[In percent]

Fiscal year	Receipts from the public	General fund transfers				
		Interest income	Federal Government's employer's share	SMI Federal contribution	Other intragovernmental receipts	Total intragovernmental receipts
1941	92.5	7.5	0	0	0	7.5
1942	92.7	7.3	0	0	0	7.3
1943	92.8	7.2	0	0	0	7.2
1944	92.6	7.4	0	0	0	7.4
1945	91.4	8.6	0	0	0	8.6
1946	89.3	10.7	0	0	0	10.7
1947	89.9	10.1	0	0	0	10.1
1948	89.4	10.5	0	0	0	10.6
1949	87.9	12.0	0	0	.2	12.1
1950	89.0	10.9	0	0	.2	11.0
1951	91.5	8.4	0	0	.1	8.5
1952	91.4	8.5	0	0	.1	8.6
1953	91.4	8.6	0	0	0	8.6
1954	91.0	8.7	0	0	.2	9.0
1955	91.8	7.9	.1	0	.2	8.2
1956	92.6	7.0	.3	0	.1	7.4
1957	91.3	7.5	1.2	0	.1	8.7
1958	91.8	6.5	1.6	0	0	8.2
1959	91.8	6.4	1.8	0	0	8.2
1960	93.2	4.9	1.6	0	.2	6.8
1961	93.8	4.6	1.6	0	0	6.2
1962	93.6	4.6	1.7	0	0	6.4
1963	94.5	3.9	1.6	0	0	5.5
1964	94.9	3.5	1.6	0	0	5.1
1965	94.7	3.7	1.6	0	0	5.3
1966	95.2	3.1	1.7	0	0	4.8
1967	92.1	2.8	1.6	2.1	1.4	7.9
1968	91.8	3.3	1.6	2.0	1.2	8.1
1969	89.4	3.3	1.6	2.6	3.1	10.6
1970	89.8	3.9	1.7	2.1	2.5	10.2
1971	88.5	4.5	1.5	2.6	2.8	11.5
1972	89.4	4.5	1.4	2.6	2.1	10.6
1973	90.6	4.1	1.3	2.4	1.6	9.4
1974	90.5	4.1	1.2	2.8	1.4	9.5

Table 8.—GENERAL FUND TRANSFERS TO THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS AS A PERCENT OF TOTAL TRUST FUND INCOME, FY 1937–84 [1]—Continued

[In percent]

Fiscal year	Receipts from the public	General fund transfers				
		Interest income	Federal Government's employer's share	SMI Federal contribution	Other intragovernmental receipts	Total intragovernmental receipts
1975	90.5	4.2	1.3	2.8	1.2	9.5
1976	90.0	4.1	1.3	3.3	1.3	10.0
1977	89.0	3.4	1.1	4.9	1.6	11.0
1978	89.2	2.9	1.1	5.4	1.4	10.8
1979	90.1	2.6	1.0	5.1	1.2	10.0
1980	91.0	2.5	.9	4.5	1.0	9.0
1981	91.1	2.2	1.0	4.9	.8	8.9
1982	89.4	2.2	1.0	6.6	.9	10.6
1983	79.5	1.8	1.2	6.0	10.9	19.9
1984	85.6	2.3	1.3	6.7	3.2	13.6
Total	88.7	3.0	1.2	4.4	2.5	11.1

[1] Figures may not add across because transfers among the trust funds are omitted.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1986.

It is sometimes argued that one or more of these general fund infusions to the trust funds should be considered as a real receipt to the Government—not simply a transfer from one Government account to another. The argument is that they represent reimbursement for social security and medicare costs that the Government would have had to pay in some other form if not through the social security and medicare programs.

Certainly the largest of these transfers—the Government's contribution to the supplementary medical insurance program—cannot be interpreted in any form as real receipt to the Government. Since the inception of the program, there has been a clear understanding that the Government would help finance this program with resources from the general fund.

The issue, however, becomes somewhat more cloudy with some of the other general fund transfers. For instance, a recent article appearing in the *New England Economic Review* contends that interest paid to the trust funds would have been interest the Government would have had to pay to the public, if it had not been able to

borrow surplus social security and medicare tax receipts in earlier years.[15]

The implication is that every surplus dollar of social security and medicare funds reduced the amount the Government had to borrow from the public. It concludes that the interest paid to the social security and medicare trust funds is an "inescapable" cost to the Government, and therefore when social security and medicare operations are viewed in a budget context, interest should be considered a real receipt. This conclusion, however, is purely speculative. There is no way of really knowing whether those earlier surplus social security and medicare receipts reduced the amount the Government had to borrow from the public, or caused the Government to spend more or tax less. If the Government actually spent more on other activities than it otherwise would have, because it had surplus social security receipts, the amount the Government borrowed from the public was not reduced and the Government has not saved any interest.

It is probable that surplus social security and medicare receipts had a variety of different effects over the years. At times they may have reduced the amount the Government borrowed from the public. At other times, they may have kept income taxes from being raised, and still at other times they may have permitted the Government to spend more on its other functions than it otherwise would have. There is, however, no way of knowing the extent of any of these effects.

It is also argued that the employer share of the social security and medicare tax paid by the Federal Government—particularly as an employer of military personnel—represents a cost the Government would otherwise have had to incur for some other form of pension. This too, however, is not an inevitable conclusion. The military, which has been and remains the dominant form of Federal employment covered by social security, already had a pension system in place when social security was extended to military service in 1957. The primary objective of extending social security to the military was to give younger personnel some form of life insurance while they served in the armed forces, not higher retirement income. And since civilian employment following military service probably is the primary determinant of the level of social security retirement benefits for persons who had social security coverage from military service, it is likely that the social security system only incurs a relatively small cost from that earlier period of coverage. It, therefore, could be argued that the Government's share of the social security and medicare tax for military personnel represents far more than the actual costs that social security and medicare incur on their behalf.

Thus, at least these three major forms of general fund payments to the trust funds—the Government's contribution to the supplementary medical insurance program, interest paid on trust fund se-

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[15] Alicia Munnell, "Social Security and the Budget," *New England Economic Review*, Federal Reserve Bank of Boston, July/August 1985, pp. 5-18.

curities, and the Government's share of the tax as an employer of the military—should not be considered as inevitable costs that the Government would have had to incur in some other way if not through the social security and medicare programs.

Arguments of varying weight also can be made that some of the smaller payments made from the general fund to the trust funds also constitute costs that the Government otherwise would have to incur, but they too are intragovernmental payments to social security and medicare from the general fund, and rationales for treating them as real receipts to the Government are based only on speculation about what the Congress would have legislated in their absence.

V. PROPOSALS TO ACCELERATE THE REMOVAL OF SOCIAL SECURITY AND MEDICARE FROM THE BUDGET

On September 19, 1985, the Senate instructed the Committee on the Budget to report legislation, with sequential referral to the Committee on Finance, intended to assure "in the best and most reliable manner possible that . . ."

> (a) Alterations will not be made in social security benefits for the purpose of reducing the Federal deficit; and
>
> (b) The placement and means of considering the social security program in relation to the congressional budget will be such that it will be ineffective to seek to achieve reduction of the overall Federal deficit by means of proposing reductions in social security benefits . . ."

The legislation would be effective with FY 1986. The instructions request that the legislation be reported by the Committee on the Budget by October 15, 1985, and, after sequential referral, by the Senate Committee on Finance by November 3, 1985.

Also on September 19, 1985, the Subcommittee on Social Security of the Committee on Ways and Means agreed to a proposed measure to remove the social security cash benefit programs (OASDI) from the budget, effective with FY 1987. It would be part of a bill to make the Social Security Administration an independent agency (the bill had not yet been reported as of the date this print was completed).

The following is a list of other bills introduced in the 99th Congress that would remove social security and one or both parts of the medicare program from the budget. Under current law the social security cash benefits programs, old-age, survivors, and disability insurance, and the hospital insurance portion of medicare are scheduled to be removed from the budget beginning in FY 1993. The supplementary medical insurance portion of medicare is to remain a part of the budget, but will be highlighted under a separate category of its own.

This list includes measures introduced through August 1985.

Table 9.—BILLS INTRODUCED IN THE 99TH CONGRESS TO REMOVE SOCIAL SECURITY AND MEDICARE FROM THE BUDGET

	Bill number	Sponsor	Date introduced
1.	S. 724	Sen. Hawkins et al.	Feb. 18, 1985
2.	S. 1600	Sen. Heinz et al.	Aug. 1, 1985
3.	H.R. 161	Rep. Oakar et al.	Jan. 3, 1985
4.	H.J. Res. 78	Rep. Dorgan et al.	Jan. 22, 1985
5.	H.R. 1376	Rep. Stark et al.	Feb. 28, 1985
6.	H.R. 1385	Rep. Young (Fla.) et al.	Feb. 28, 1985
7.	H.R. 1457	Rep. Bilirakis et al.	Mar. 7, 1985
8.	H.R. 1477	Rep. McCandless	Mar. 7, 1985
9.	H.R. 2154	Rep. Hammerschmidt	Apr. 22, 1985
10.	H.R. 2164	Rep. Rinaldo et al.	Apr. 22, 1985
11.	H.R. 2289	Rep. Solomon	Apr. 30, 1985
12.	H.R. 2299	Rep. Flippo et al.	May 1, 1985
13.	H.R. 2471	Rep. Roybal et al.	May 13, 1985
14.	H.R. 2792	Rep. Kemp	June 18, 1985
15.	H.R. 3195	Rep. Neal	Aug. 1, 1985

Source: Congressional Research Service, August 1985.

Note: Some of these bills include other measures besides those dealing with removal of social security and medicare from the budget.

—H.R. 161 (Representative Oakar et al.), H.R. 1457 (Represenative Bilirakis et al.), and H.R. 2792 (Representative Kemp)

These bills call for removal of all four of the social security and medicare trust funds from the budget. The President would be required to submit a budget each year that excludes the financial operations of the social security and medicare trust funds from the overall budget totals, and Congress would be required to adopt a budget each year that exempts these programs "from any general budget limitation imposed by statute on expenditures and net lending (budget outlays) of the U.S. Government."

H.R. 161 and H.R. 2792 would be effective beginning with the budget submitted by the President for FY 1987. With respect to congressional budget action, they would be effective beginning with FY 1986.

H.R. 1457 would be effective beginning with FY 1987.

—S. 724 (Senator Hawkins et al.),
S. 1600 (Senator Heinz et al.),
H.J. Res. 78 (Representative Dorgan et al.),
H.R. 1376 (Representative Stark et al.),
H.R. 1385 (Representative Young et al.),
H.R. 1477 (Representative McCandless),
H.R. 2154 (Representative Hammerschmidt),
H.R. 2164 (Representative Rinaldo et al.),
H.R. 2299 (Representative Flippo et al.), and
H.R. 3195 (Representative Neal)

These bills call for acceleration of removal from the budget of the two social security cash benefit programs and the hospital insurance portion of the medicare program from FY 1993 to some earlier fiscal year. The supplementary medical insurance portion of the medicare program would continue to count in arriving at budget totals, but would be treated as a separate functional category of the budget.

S. 724 and S. 1600 include additional language explicitly stating that any reconciliation instruction that might be included in budget resolutions could not apply to the social security and hospital insurance programs.

S. 1600, H.J. Res. 78, H.R. 1376, H.R. 2154, H.R. 2164, and H.R. 2299 would be effective beginning with FY 1986.

S. 724, H.R. 1477, H.R. 1385, and H.R. 3195 would be effective beginning with FY 1987.

—H.R. 2471 (Representative Roybal et al.)

This bill would accelerate the removal from the budget of only the social security cash benefit programs, old-age, survivors, and disability insurance, effective beginning with FY 1989. As prescribed under current law, the hospital insurance program would be removed from the budget beginning with FY 1993, and the supplementary medical insurance program would continue to be shown as a separate functional category of the budget.

—H.R. 2289 (Representative Solomon)

This bill would accelerate the removal from the budget of only one of the social security cash benefit programs, old-age and survivors insurance, effective beginning with FY 1987. As prescribed under current law, the disability and hospital insurance programs would be removed from the budget beginning with FY 1993, and the supplementary medical insurance program would continue to be treated as a separate functional category of the budget.

VI. ISSUES WITH REMOVING SOCIAL SECURITY AND MEDICARE FROM THE BUDGET

Arguments for Removing Them From the Budget

—Budget decisions should not cause changes to social security and medicare

Over the years, proponents of removing social security and medicare in the budget have argued that the unified budget arrangement distorts the process of making decisions about social security and medicare. The Report of the 1971 Social Security Advisory Council stated that—

> Even though the operations of the social security trust funds and other Federal trust funds are combined with the general operations of the Federal Government in the unified Federal budget, policy decisions affecting the social security programs should be based on the objectives of the program rather than any effects such decisions might have on the Federal budget.

—Removal would restore public confidence

Proponents argue that people see social security and medicare as relatively fixed programs—virtually a political if not a legal contract.[16] They contend that people sometimes make irreversible decisions in planning for retirement on the basis that social security and medicare will be there when they retire. If the programs continue to be brought up in budget deliberations, they contend that the public will totally lose confidence in the system by the continued piecemeal erosion of that perceived contract.

—Cutbacks would be more difficult to enact

Proponents contend that while removal of social security and medicare from the budget totals submitted by the President and exemption from the congressional budget act requirements would not totally insulate the programs from budgetary cutbacks, such cutbacks would be made more difficult to accomplish. If and when

[16] Social security and medicare benefits typically are not considered a contractual obligation of the Government. In the case of *Fleming* v. *Nestor*, 363 U.S. 603 (1960), the Supreme Court rendered the view that the worker's interest in social security is "noncontractual" and could not "be soundly analogized to that of a holder of an annuity, whose right to benefits are bottomed on his contractual premium payments."

social security or medicare cutbacks were subsequently brought up in the context of the budget, opponents could pose the question "how can we vote to make cuts in social security and medicare, when we have enacted explicit procedures to exempt them from the budget process requirements."

—These programs are largely self-supporting

It further is argued that the major components of the social security and medicare programs, old-age, survivors, disability, and hospital insurance, are largely self-supporting since most of their resources come from their own taxes and premiums—and, therefore, they should not be pitted against other Federal programs which must compete for scarce general revenues.

—Removal would give them more autonomy

Proponents of removing these programs from the budget often are seeking to re-establish the somewhat autonomous stature that these programs seemed to have within the Government until the late 1960's and early 1970's. In addition to urging the removal of these programs from the budget process, they advocate making the Social Security Administration (SSA) an independent agency, separate from the Department of Health and Human Services (DHHS). These actions, it is argued, would lessen the temptation of policymakers to look to social security and medicare—which have long-range goals—to accomplish short-range budgetary and economic objectives or to augment other Governmental activities.

—Removal would enhance fiscal responsibility

Other proponents come at the issue from an entirely different perspective. They would contend that including social security and medicare in the budget may eventually distort decisionmaking in the budget process itself. Concerned about recent reports from the social security and medicare trustees that these programs could receive very large excess receipts in the coming years, they contend that their apparent good health could misrepresent the overall financial condition of the Government if their financial operations continue to be shown as part of the overall budget. They contend that trust fund excesses might diminish the incentive to constrain the costs of Government generally, or possibly induce greater spending in programs and activities financed by the general fund because the overall budget would be shown to have smaller deficits.

However, any such fiscal imprudence would not become apparent until years later when the trust fund reserves accumulated during the earlier surplus period were needed to pay benefits. Those excess reserves merely would be Government IOU's, and consequently, the Government at that later point either would have to increase taxes or the amount borrowed from the public to pay its debt to social security or curtail the expected social security benefits or other Government expenditures.

—Removal would discourage use of general revenues

Yet another twist in the arguments made for separating social security and medicare from the budget sometimes comes from those who wish to prevent the further use of general revenues in the programs. Their reasoning is that if these programs were separated from the budget and portrayed in a manner similar to that used when they previously were not part of the budget, the transfer of general revenues to them would appear as a large outlay in the new de-unified Federal budget, and thus would contribute to the budget deficit. The spectre of soaring budget deficits might, then, deter lawmakers from allowing social security and medicare to heavily tap the general fund.[17] Presently, under the unified budget, general fund infusions into the social security and medicare trust funds have no effect on the deficit. These internal transfers from the general fund are considered as offsetting receipts to the trust funds, and thereby, merely show up as intragovernmental transactions having no impact on the overall budget deficit.[18]

Arguments Against Removing Them From the Budget

—Social security and medicare are too big to ignore

Those who support the unified budget concept contend that the social security and medicare programs involve so much money that to omit them from the budget would misrepresent the Federal Government's activities and could result in irrational economic planning. Trust fund programs constitute one of the largest and fastest-growing components of Federal spending. Social security and medicare account for almost one-third of all Federal receipts and for more than one-quarter of all Federal expenditures. Excluding them from the Federal budget, it is argued, would undermine the value of the budget as a comprehensive financial plan for the Nation and might complicate the Federal Government's ability to implement a fiscal policy, i.e., to alter Government taxing and spending policies to improve the economy.

They argue that inclusion of trust funds in the unified budget allows for a simpler and more straightforward presentation, by making visible the full scope of Federal financial activities. President Johnson's Commission on Budget Concepts envisioned the unified budget as—

> an approach to budgetary presentation which will advance both public and congressional understanding of this vital document.

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[17] Realistically speaking, the total governmental deficit would be the same regardless of whether social security were "on" or "off" budget. The new "official" Federal budget would have a larger deficit, but the amount of Federal borrowing from the public would be the same.

[18] While an internal transfer from the general fund to the trust funds is often characterized as not in and of itself altering the unified budget deficit, this is not always true. See comment contained in footnote 11.

—Removal would mislead the public

Opponents of removing social security and medicare from the budget point out removing them would increase the projected deficits of the coming years, but that this would be misleading as to the true amount of deficit that the Government as a whole is incurring. More importantly, the amount of money the Government has to borrow from the public to keep operating would not be changed in any way by removing these programs from the budget figures. The actual amount of public borrowing by the Treasury Department would only be obscured, by simply changing the way the financial transactions of the Government are displayed to the public. The result would be even more confusion about the cost of Government than currently exists.

—Other programs and activities would suffer

Opponents also contend that the social security and medicare programs should be constantly subject to budgetary review to identify unnecessary or duplicative expenditures in the same way that all Federal programs are reviewed, and that this will be done whether or not they are presented in the budget. If the de-unified budget consisted of defense, the remaining smaller domestic expenditures of the Government, and interest on the debt, the questions likely would be posed "are we going to take the budget knife only to those activities considered a part of the formal budget, including programs for the poor, while large benefits continue to be paid to some well-off retirees," and "are expenditures for other Government activities going to be curtailed so that interest and other internal payments can be made to trust funds projected to receive surplus receipts regardless?" To emphasize this perspective, it is sometimes pointed out that elimination of all discretionary spending would not be sufficient to eliminate budget deficits.[19]

—Budget process would be dismantled

Others argue that if removing social security and medicare from the budget achieved the desired end of sheltering these programs from budget review, the entire process of controlling Federal receipts and expenditures would be dismantled. There would be a rush to remove other Federal programs financed through trust funds from the budget process. Those benefiting from the civil service retirement, military pension, railroad retirement, unemployment, black lung, highway, airport and airway, foreign military sales and other trust fund programs would ask that these programs be removed from the budget process too. With social security and medicare, these trust fund programs account for nearly 40 percent of all Federal expenditures in FY 1985. And still other programs now served directly from the general fund would seek to have spe-

[19] In FY 1985, CBO estimates that non-discretionary spending will be $176 billion and that spending on all other entitlement programs (besides social security and medicare) will be $184 billion. These are both lower than the projected budget deficit of $210 billion.

cial trust funds established for their financial transactions so that they too might be sheltered from the purview of the budget process.

—Social security could be used to achieve other purposes

Still a further argument is that if social security and medicare were effectively sheltered from the budget process, they could wind up being tools to achieve other social ends that have little to do with their basic functions. In other words, the budget process could be side-stepped by using the social security or medicare programs. New or existing expenditures for social programs, that might not otherwise survive the budget process, could result from alternative measures expanding social security or medicare benefits. For instance, if there were interest in increasing Federal cash benefits to the poor—perhaps through the means-tested supplemental security income (SSI) program—proponents of the increase might decide to pursue the increase through the social security program instead because, unlike the SSI program, it would not be subject to a budget limitation. If enacted, overall Government spending might be larger than if an SSI increase had been given, because the social security increase would have gone to people with substantial means in addition to the poor. In effect, removing social security and medicare from the budget process could have the perverse result of inefficiently increasing Federal expenditures for other purposes.

—Social security crowds out other taxes

Yet another argument is that the now relatively healthy financial condition of the social security and hospital insurance trust funds has been achieved in part at the expense of the general fund. The social security tax has been increased regularly over the years to cover the rising costs of the social security and hospital insurance programs, making it difficult for other taxes to rise to cover the other costs of Government. It is contended that when pressure built up from time to time to provide relief from the rising Federal tax burden, the income tax typically was the vehicle used. Thus, it can be argued that social security and hospital insurance should be considered in deliberations of how to resolve Federal budgetary problems, because the deficits in the general fund have to some extent been the consequence of having to provide relief from the aggregate impact of Federal taxation, including social security taxes.

APPENDICES

Appendix A

HISTORICAL DATA ABOUT THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS AND THEIR IMPACT ON FEDERAL FINANCIAL OPERATIONS

Table 10.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (−)	Income as percent of outgo [2]
1937	$265	$0	$265	.....
1938	387	5	382	7,167
1939	503	14	489	3,619
1940	550	28	522	1,957
1941	688	91	597	755
1942	896	137	758	653
1943	1,131	177	954	639
1944	1,292	217	1,075	595
1945	1,310	267	1,043	491
1946	1,238	358	880	346
1947	1,460	466	993	313
1948	1,616	559	1,057	289
1949	1,690	661	1,030	256
1950	2,106	784	1,322	269
1951	3,120	1,568	1,552	199
1952	3,594	2,067	1,527	174
1953	4,097	2,717	1,380	151
1954	4,589	3,364	1,225	136
1955	5,081	4,436	644	115
1956	6,425	5,485	939	117
1957	6,789	6,666	123	102
1958	8,049	8,221	−172	98
1959	8,296	9,737	−1,441	85
1960	10,641	11,629	−988	92
1961	12,109	12,475	−366	97

Table 10.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE—Continued

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (−)	Income as percent of outgo [2]
1962	12,271	14,367	−2,097	85
1963	14,175	15,790	−1,615	90
1964	16,366	16,623	−257	98
1965	16,723	17,463	−740	96
1966	19,085	20,701	−1,616	92
1967	24,401	21,725	2,676	112
1968	24,917	23,860	1,057	104
1969	28,953	27,304	1,650	106
1970	33,459	30,274	3,186	111
1971	35,845	35,873	−29	100
1972	39,907	40,157	−251	99
1973	46,084	49,090	−3,006	94
1974	53,925	55,867	−1,942	97
1975	62,458	64,658	−2,201	97
1976	66,389	73,903	−7,514	90
1976TQ	18,016	19,763	−1,747	91
1977	76,817	85,068	−8,251	90
1978	85,391	93,861	−8,470	91
1979	97,994	104,073	−6,079	94
1980	113,209	118,559	−5,350	95
1981	130,176	139,584	−9,409	93
1982	143,467	155,964	−12,497	92
1983	147,320	170,724	−23,403	86
1984	168,350	178,223	−9,873	94
Total: 1937–84	1,563,619	1,645,607	−81,988	95

[1] Payments to and from the general fund of the Treasury are excluded.
[2] Percentages are based on unrounded income and outgo.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 11.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR HOSPITAL INSURANCE

[Dollars in millions]

Fiscal year	Income [1]	Outgo	Annual surplus or deficit (−)	Income as percent of outgo [2]
1966	$893	$64	$829	1,404
1967	2,645	2,597	48	102
1968	3,493	3,815	−322	92
1969	4,398	4,758	−360	92
1970	4,755	4,953	−198	96
1971	4,874	5,592	−718	87
1972	5,205	6,275	−1,071	83
1973	7,603	6,842	762	111
1974	10,551	8,060	2,491	131
1975	11,252	10,606	646	106
1976	11,987	12,571	−583	95
1976TQ	3,457	3,401	55	102
1977	13,474	15,197	−1,723	89
1978	16,668	17,849	−1,182	93
1979	19,874	20,327	−452	98
1980	23,217	24,271	−1,054	96
1981	30,340	29,227	1,113	104
1982	34,301	34,839	−538	98
1983	35,641	38,498	−2,857	93
1984	40,262	42,073	−1,812	96
Total: 1966–84	284,889	291,816	−6,927	98

[1] Payments to and from the general fund of the Treasury are excluded.
[2] Percentages are based on unrounded income and outgo.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 12.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR SUPPLEMENTARY MEDICAL INSURANCE

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (−)	Income as percent of outgo [2]
1966	$0	$0	$0	0
1967	647	798	−151	81
1968	699	1,532	−834	46
1969	903	1,839	−937	49

Table 12.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR SUPPLEMENTARY MEDICAL INSURANCE—Continued

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (–)	Income as percent of outgo [2]
1970	936	2,196	–1,260	43
1971	1,253	2,283	–1,030	55
1972	1,340	2,544	–1,203	53
1973	1,427	2,637	–1,210	54
1974	1,704	3,283	–1,578	52
1975	1,901	4,170	–2,269	46
1976	1,937	5,200	–3,263	37
1976TQ	539	1,401	–863	38
1977	2,193	6,342	–4,149	35
1978	2,431	7,350	–4,919	33
1979	2,636	8,805	–6,169	30
1980	2,928	10,746	–7,818	27
1981	3,319	13,240	–9,921	25
1982	3,831	15,559	–11,728	25
1983	4,229	18,317	–14,088	23
1984	4,907	20,374	–15,467	24
Total: 1966–84	39,759	128,616	–88,857	31

[1] Premiums and proprietary receipts only. Payments from the general fund of the Treasury are excluded.

[2] Percentages are based on unrounded income and outgo.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 13.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR HOSPITAL AND SUPPLEMENTARY MEDICAL INSURANCE

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (–)	Income as percent of outgo [2]
1966	$893	$64	$829	1,404
1967	2,645	2,748	–103	96
1968	3,493	4,649	–1,156	75
1969	4,398	5,695	–1,297	77
1970	4,755	6,213	–1,458	77
1971	4,874	6,622	–1,748	74
1972	5,205	7,479	–2,274	70
1973	7,603	8,052	–449	94

Table 13.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR HOSPITAL AND SUPPLEMENTARY MEDICAL INSURANCE—Continued

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (−)	Income as percent of outgo [2]
1974	10,551	9,639	913	109
1975	11,252	12,875	−1,623	87
1976	11,987	15,834	−3,846	76
1976TQ	3,457	4,264	−807	81
1977	13,474	19,345	−5,872	70
1978	16,668	22,768	−6,100	73
1979	19,874	26,495	−6,621	75
1980	23,217	32,089	−8,873	72
1981	30,340	39,149	−8,809	77
1982	34,301	46,567	−12,266	74
1983	35,641	52,588	−16,947	68
1984	40,262	57,540	−17,279	70
Total: 1966-84	284,889	380,675	−95,786	75

[1] Payments to and from the general fund of the Treasury are excluded.
[2] Percentages are based on unrounded income and outgo.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986.* Office of Management and Budget, February 1985.

Table 14.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR OLD-AGE, SURVIVORS, DISABILITY AND HOSPITAL INSURANCE

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (−)	Income as percent of outgo [2]
1937	$265	$0	$265	.....
1938	387	5	382	7,167
1939	503	14	489	3,619
1940	550	28	522	1,957
1941	688	91	597	755
1942	896	137	758	653
1943	1,131	177	954	639
1944	1,292	217	1,075	595
1945	1,310	267	1,043	491
1946	1,238	358	880	346
1947	1,460	466	993	313

Table 14.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR OLD-AGE, SURVIVORS, DISABILITY AND HOSPITAL INSURANCE—Continued

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (−)	Income as percent of outgo [2]
1948	1,616	559	1,057	289
1949	1,690	661	1,030	256
1950	2,106	784	1,322	269
1951	3,120	1,568	1,552	199
1952	3,594	2,067	1,527	174
1953	4,097	2,717	1,380	151
1954	4,589	3,364	1,225	136
1955	5,081	4,436	644	115
1956	6,425	5,485	939	117
1957	6,789	6,666	123	102
1958	8,049	8,221	−172	98
1959	8,296	9,737	−1,441	85
1960	10,641	11,629	−988	92
1961	12,109	12,475	−366	97
1962	12,271	14,367	−2,097	85
1963	14,175	15,790	−1,615	90
1964	16,366	16,623	−257	98
1965	16,723	17,463	−740	96
1966	19,978	20,765	−786	96
1967	27,046	24,322	2,724	111
1968	28,409	27,675	734	103
1969	33,351	32,062	1,289	104
1970	38,214	35,226	2,988	108
1971	40,719	41,466	−747	98
1972	45,111	46,433	−1,322	97
1973	53,687	55,932	−2,245	96
1974	64,476	63,928	549	101
1975	73,709	75,264	−1,555	98
1976	78,376	86,473	−8,097	91
1976TQ	21,473	23,164	−1,692	93
1977	90,291	100,265	−9,974	90
1978	102,059	111,710	−9,651	91
1979	117,868	124,399	−6,531	95
1980	136,426	142,830	−6,404	96
1981	160,515	168,812	−8,296	95
1982	177,768	190,803	−13,035	93
1983	182,961	209,222	−26,261	87

Table 14.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR OLD-AGE, SURVIVORS, DISABILITY AND HOSPITAL INSURANCE—Continued

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (−)	Income as percent of outgo [2]
1984	208,612	220,296	−11,684	95
Total: 1937–84	1,848,508	1,937,424	−88,916	95

[1] Payments to and from the general fund of the Treasury are excluded.
[2] Percentages are based on unrounded income and outgo.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

TABLE 15.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR OLD-AGE, SURVIVORS, DISABILITY, HOSPITAL AND SUPPLEMENTARY MEDICAL INSURANCE

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (−)	Income as percent of outgo [2]
1937	$265	$0	$265	0
1938	387	5	382	7,167
1939	503	14	489	3,619
1940	550	28	522	1,957
1941	688	91	597	755
1942	896	137	758	653
1943	1,131	177	954	639
1944	1,292	217	1,075	595
1945	1,310	267	1,043	491
1946	1,238	358	880	346
1947	1,460	466	993	313
1948	1,616	559	1,057	289
1949	1,690	661	1,030	256
1950	2,106	784	1,322	269
1951	3,120	1,568	1,552	199
1952	3,594	2,067	1,527	174
1953	4,097	2,717	1,380	151
1954	4,589	3,364	1,225	136
1955	5,081	4,436	644	115
1956	6,425	5,485	939	117
1957	6,789	6,666	123	102
1958	8,049	8,221	−172	98

TABLE 15.—INCOME AND OUTGO TO AND FROM THE GOVERNMENT FOR OLD-AGE, SURVIVORS, DISABILITY, HOSPITAL AND SUPPLEMENTARY MEDICAL INSURANCE—Continued

[Dollars in millions]

Fiscal year	Income [1]	Outgo [1]	Annual surplus or deficit (–)	Income as percent of outgo [2]
1959	8,296	9,737	–1,441	85
1960	10,641	11,629	–988	92
1961	12,109	12,475	–366	97
1962	12,271	14,367	–2,097	85
1963	14,175	15,790	–1,615	90
1964	16,366	16,623	–257	98
1965	16,723	17,463	–740	96
1966	19,978	20,765	–786	96
1967	27,046	24,473	2,573	111
1968	28,409	28,509	–99	100
1969	33,351	32,998	353	101
1970	38,214	36,487	1,727	105
1971	40,719	42,496	–1,777	96
1972	45,111	47,636	–2,525	95
1973	53,687	57,143	–3,455	94
1974	64,476	65,506	–1,030	98
1975	73,709	77,533	–3,824	95
1976	78,376	89,736	–11,360	87
1976TQ	21,473	24,027	–2,554	89
1977	90,291	104,414	–14,123	86
1978	102,059	116,629	–14,570	88
1979	117,868	130,568	–12,700	90
1980	136,426	150,648	–14,223	91
1981	160,515	178,733	–18,217	90
1982	177,768	202,531	–24,763	88
1983	182,961	223,311	–40,350	82
1984	208,612	235,763	–27,151	88
Total: 1937–84	1,848,508	2,026,283	–177,774	91

[1] Payments to and from the general fund of the Treasury are excluded.
[2] Percentages are based on unrounded income and outgo.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 16.—OUTLAYS FOR SOCIAL SECURITY AND MEDICARE AS A PERCENT OF TOTAL FEDERAL OUTLAYS

[In percent]

Fiscal year	Social security			Medicare				Total social security and medicare
	Old-age and survivors insurance	Disability insurance	Total social security	Hospital insurance	Supplementary medical insurance	Medicare premiums and collections	Total medicare	
1940	0.3		0.3					0.3
1941	.7		.7					.7
1942	.4		.4					.4
1943	.2		.2					.2
1944	.2		.2					.2
1945	.3		.3					.3
1946	.6		.6					.6
1947	1.4		1.4					1.4
1948	1.9		1.9					1.9
1949	1.7		1.7					1.7
1950	1.8		1.8					1.8
1951	3.4		3.4					3.4
1952	3.1		3.1					3.1
1953	3.6		3.6					3.6
1954	4.7		4.7					4.7
1955	6.5		6.5					6.5
1956	7.8		7.8					7.8
1957	8.7	0.0	8.7					8.7
1958	9.8	.2	10.0					10.0
1959	10.2	.4	10.6					10.6
1960	12.0	.6	12.6					12.6
1961	12.0	.8	12.8					12.8
1962	12.4	1.0	13.4					13.4
1963	13.1	1.1	14.2					14.2
1964	12.9	1.1	14.0					14.0
1965	13.5	1.3	14.8					14.8
1966	14.0	1.4	15.4	0.0	0.0	0.0	0.0	15.4
1967	12.5	1.3	13.8	1.6	.5	−.4	1.7	15.5
1968	12.1	1.3	13.4	2.1	.9	−.4	2.6	16.0
1969	13.4	1.4	14.9	2.6	1.0	−.5	3.1	18.0
1970	14.0	1.5	15.5	2.5	1.1	−.5	3.2	18.6
1971	15.4	1.7	17.1	2.7	1.1	−.6	3.2	20.2
1972	15.5	1.9	17.4	2.7	1.1	−.6	3.2	20.7
1973	17.8	2.2	20.0	2.8	1.1	−.6	3.3	23.3

Table 16.—OUTLAYS FOR SOCIAL SECURITY AND MEDICARE AS A PERCENT OF TOTAL FEDERAL OUTLAYS—Continued

[In percent]

Fiscal year	Social security			Medicare				Total social security and medicare
	Old-age and survivors insurance	Disability insurance	Total social security	Hospital insurance	Supplementary medical insurance	Medicare premiums and collections	Total medicare	
1974	18.4	2.4	20.7	3.0	1.2	−.6	3.6	24.3
1975	17.1	2.4	19.5	3.2	1.3	−.6	3.9	23.3
1976	17.3	2.6	19.9	3.4	1.4	−.5	4.3	24.1
1976TQ	17.8	2.8	20.6	3.5	1.5	−.6	4.4	25.0
1977	18.0	2.8	20.8	3.7	1.5	−.5	4.7	25.5
1978	17.7	2.8	20.5	3.9	1.6	−.5	5.0	25.4
1979	17.9	2.8	20.7	4.0	1.7	−.5	5.3	25.9
1980	17.5	2.6	20.1	4.1	1.8	−.5	5.4	25.5
1981	18.0	2.5	20.6	4.3	2.0	−.5	5.8	26.4
1982	18.5	2.4	20.9	4.7	2.1	−.5	6.2	27.2
1983	19.1	2.3	21.1	4.8	2.3	−.5	6.5	27.6
1984	19.1	2.2	20.9	5.0	2.4	−.6	6.8	27.7

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 17.—SOCIAL SECURITY AND MEDICARE RECEIPTS AS A PERCENT OF TOTAL FEDERAL RECEIPTS

Fiscal year	Old-age and survivors insurance	Disability insurance	Total social security	Hospital insurance	Total social security and medicare [1]
1940	8.4		8.4		8.4
1941	7.9		7.9		7.9
1942	6.1		6.1		6.1
1943	4.7		4.7		4.7
1944	3.0		3.0		3.0
1945	2.9		2.9		2.9
1946	3.2		3.2		3.2
1947	3.8		3.8		3.8
1948	3.9		3.9		3.9
1949	4.3		4.3		4.3

Table 17.—SOCIAL SECURITY AND MEDICARE RECEIPTS AS A PERCENT OF TOTAL FEDERAL RECEIPTS—Continued

Fiscal year	Old-age and survivors insurance	Disability insurance	Total social security	Hospital insurance	Total social security and medicare [1]
1950	5.3		5.3		5.3
1951	6.0		6.0		6.0
1952	5.4		5.4		5.4
1953	5.9		5.9		5.9
1954	6.6		6.6		6.6
1955	7.8		7.8		7.8
1956	8.6		8.6		8.6
1957	8.1	0.4	8.5		8.5
1958	9.0	1.1	10.1		10.1
1959	9.4	1.1	10.5		10.5
1960	10.5	1.0	11.5		11.5
1961	11.8	1.1	12.8		12.8
1962	11.3	1.0	12.3		12.3
1963	12.3	1.0	13.3		13.3
1964	13.5	1.0	14.5		14.5
1965	13.3	1.0	14.3		14.3
1966	13.4	1.2	14.6	0.7	15.3
1967	14.9	1.5	16.4	1.8	18.2
1968	14.6	1.7	16.3	2.3	18.6
1969	13.6	1.9	15.5	2.4	17.8
1970	15.2	2.1	17.4	2.5	19.8
1971	16.8	2.4	19.2	2.6	21.8
1972	16.9	2.3	19.2	2.5	21.8
1973	17.6	2.3	20.0	3.3	23.3
1974	18.2	2.3	20.5	4.0	24.5
1975	19.8	2.6	22.4	4.0	26.4
1976	19.7	2.6	22.3	4.0	26.3
1976TQ	19.6	2.6	22.2	4.3	26.4
1977	19.1	2.5	21.6	3.8	25.4
1978	18.3	3.1	21.4	4.2	25.5
1979	18.0	3.1	21.2	4.3	25.4
1980	18.7	3.2	21.9	4.5	26.4
1981	19.7	2.1	21.7	5.1	26.8
1982	19.9	3.3	23.2	5.6	28.8
1983	21.5	3.1	24.5	5.9	30.5
1984	22.9	2.4	25.3	6.0	31.3

[1] SMI receipts are considered as offsets to SMI outlays on previous table.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 18.—BALANCES OF THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS AS A PERCENT OF THE DEBT HELD BY FEDERAL GOVERNMENT ACCOUNTS

Fiscal year	Social security			Medicare			Total social security and medicare
	Old-age and survivors insurance	Disability insurance	Total social security	Hospital insurance	Supplementary medical insurance	Total medicare	
1940	22.02		22.02				22.02
1941	25.76		25.76				25.76
1942	28.19		28.19				28.19
1943	28.68		28.68				28.68
1944	28.24		28.24				28.24
1945	26.52		26.52				26.52
1946	26.23		26.23				26.23
1947	26.82		26.82				26.82
1948	28.09		28.09				28.09
1949	29.54		29.54				29.54
1950	34.08		34.08				34.08
1951	35.97		35.97				35.97
1952	37.44		37.44				37.44
1953	38.60		38.60				38.60
1954	43.27		43.27				43.27
1955	44.27		44.27				44.27
1956	44.71		44.71				44.71
1957	43.51	0.64	44.14				44.14
1958	42.78	2.06	44.84				44.84
1959	40.83	3.16	43.99				43.99
1960	38.81	4.04	42.85				42.85
1961	38.55	4.61	43.16				43.16
1962	35.80	4.57	40.37				40.37
1963	33.70	4.25	37.95				37.95
1964	33.35	3.83	37.18				37.18
1965	32.82	3.26	36.09				36.09
1966	30.70	2.61	33.31	1.31	0.00	1.31	34.62
1967	31.88	2.74	34.62	1.82	.66	2.48	37.10
1968	32.28	3.27	35.55	1.81	.39	2.20	37.75
1969	32.18	4.20	36.37	2.30	.43	2.73	39.10
1970	33.39	5.22	38.62	2.74	.06	2.80	41.41
1971	32.67	6.10	38.76	2.95	.28	3.23	41.99

Table 18.—BALANCES OF THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS AS A PERCENT OF THE DEBT HELD BY FEDERAL GOVERNMENT ACCOUNTS—Continued

Fiscal year	Social security			Medicare			Total social security and medicare
	Old-age and survivors insurance	Disability insurance	Total social security	Hospital insurance	Supplementary medical insurance	Total medicare	
1972	32.07	6.51	38.57	2.52	.42	2.94	41.52
1973	29.05	6.28	35.33	3.48	.59	4.08	39.41
1974	27.02	5.89	32.91	5.64	.91	6.55	39.46
1975	27.14	5.56	32.71	6.70	.97	7.67	40.38
1976	25.07	4.58	29.65	7.15	.79	7.94	37.59
1976TQ	25.04	4.36	29.40	7.39	.83	8.22	37.62
1977	22.50	2.70	25.19	7.07	1.45	8.52	33.71
1978	18.29	2.58	20.87	6.96	2.35	9.31	30.17
1979	14.67	2.97	17.65	7.06	2.65	9.71	27.36
1980	12.34	3.86	16.19	7.27	2.28	9.55	25.75
1981	11.38	1.62	13.00	8.64	1.79	10.43	23.43
1982	5.77	3.11	8.87	9.58	2.67	12.25	21.12
1983	11.10	2.20	13.31	5.75	2.77	8.52	21.82
1984	10.44	2.00	12.44	6.53	3.33	9.86	22.30

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 19.—BALANCES OF THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS AS A PERCENT OF THE GROSS FEDERAL DEBT

Fiscal year	Social security			Medicare			Total social security and medicare
	Old-age and survivors insurance	Disability insurance	Total social security	Hospital insurance	Supplementary medical insurance	Total medicare	
1940	3.44		3.44				3.44
1941	4.17		4.17				4.17
1942	4.07		4.07				4.07
1943	2.99		2.99				2.99
1944	2.67		2.67				2.67
1945	2.54		2.54				2.54
1946	2.82		2.82				2.82
1947	3.42		3.42				3.42
1948	3.99		3.99				3.99

Table 19.—BALANCES OF THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS AS A PERCENT OF THE GROSS FEDERAL DEBT—Continued

Fiscal year	Social security			Medicare			Total social security and medicare
	Old-age and survivors insurance	Disability insurance	Total social security	Hospital insurance	Supplementary medical insurance	Total medicare	
1949	4.48		4.48				4.48
1950	5.02		5.02				5.02
1951	5.77		5.77				5.77
1952	6.41		6.41				6.41
1953	6.91		6.91				6.91
1954	7.40		7.40				7.40
1955	7.71		7.71				7.71
1956	8.28		8.28				8.28
1957	8.46	0.12	8.58				8.58
1958	8.16	.39	8.55				8.55
1959	7.49	.58	8.07				8.07
1960	7.16	.75	7.91				7.91
1961	7.15	.86	8.00				8.00
1962	6.48	.83	7.31				7.31
1963	6.11	.77	6.88				6.88
1964	6.23	.72	6.95				6.95
1965	6.25	.62	6.87				6.87
1966	6.04	.51	6.55	0.26	0.00	0.26	6.81
1967	6.89	.59	7.49	.39	.14	.54	8.02
1968	6.91	.70	7.61	.39	.08	.47	8.08
1969	7.68	1.00	8.68	.55	.10	.65	9.34
1970	8.53	1.33	9.86	.70	.01	.71	10.58
1971	8.39	1.57	9.95	.76	.07	.83	10.78
1972	8.33	1.69	10.02	.65	.11	.76	10.78
1973	7.78	1.68	9.46	.93	.16	1.09	10.55
1974	7.79	1.70	9.49	1.63	.26	1.89	11.38
1975	7.34	1.51	8.85	1.81	.26	2.08	10.93
1976	6.01	1.10	7.11	1.71	.19	1.91	9.02
1976TQ	5.73	1.00	6.73	1.69	.19	1.88	8.62
1977	4.99	.60	5.59	1.57	.32	1.89	7.48
1978	3.97	.56	4.53	1.51	.51	2.02	6.55
1979	3.33	.67	4.00	1.60	.60	2.20	6.21
1980	2.69	.84	3.53	1.58	.50	2.08	5.61
1981	2.38	.34	2.71	1.80	.37	2.18	4.89

Table 19.—BALANCES OF THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS AS A PERCENT OF THE GROSS FEDERAL DEBT—Continued

Fiscal year	Social security			Medicare			Total social security and medicare
	Old-age and survivors insurance	Disability insurance	Total social security	Hospital insurance	Supplementary medical insurance	Total medicare	
1982	1.09	.59	1.68	1.82	.51	2.32	4.01
1983	1.93	.38	2.31	1.00	.48	1.48	3.79
1984	1.75	.34	2.08	1.09	.56	1.65	3.74

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 20.—OUTLAYS FOR SOCIAL SECURITY AND MEDICARE AS A PERCENT OF THE GROSS NATIONAL PRODUCT

Fiscal year	Social security	Medicare	Total social security and medicare
1940	0.03		0.03
1941	.08		.08
1942	.10		.10
1943	.10		.10
1944	.11		.11
1945	.12		.12
1946	.18		.18
1947	.21		.21
1948	.23		.23
1949	.25		.25
1950	.30		.30
1951	.50		.50
1952	.61		.61
1953	.75		.75
1954	.92		.92
1955	1.17		1.17
1956	1.33		1.33
1957	1.54		1.54
1958	1.86		1.86
1959	2.05		2.05
1960	2.34		2.34
1961	2.45		2.45
1962	2.62		2.62

Table 20.—OUTLAYS FOR SOCIAL SECURITY AND MEDICARE AS A PERCENT OF THE GROSS NATIONAL PRODUCT—Continued

Fiscal year	Social security	Medicare	Total social security and medicare
1963	2.73		2.73
1964	2.69		2.69
1965	2.65		2.65
1966	2.86	0.01	2.87
1967	2.79	.35	3.15
1968	2.87	.56	3.43
1969	3.00	.63	3.62
1970	3.12	.64	3.77
1971	3.48	.64	4.12
1972	3.56	.66	4.22
1973	3.92	.64	4.56
1974	4.05	.70	4.75
1975	4.37	.87	5.24
1976	4.51	.97	5.47
1976TQ	4.57	.99	5.56
1977	4.57	1.04	5.61
1978	4.49	1.09	5.58
1979	4.41	1.12	5.54
1980	4.60	1.25	5.85
1981	4.84	1.36	6.19
1982	5.12	1.53	6.65
1983	5.30	1.63	6.93
1984	4.98	1.61	6.58

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 21.—INCOME AND OUTGO OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE TRUST FUNDS [1]

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (−)
1937	267	0	267
1938	402	5	397
1939	530	14	516
1940	593	28	564
1941	744	91	653
1942	967	137	829
1943	1,218	177	1,041

Table 21.—INCOME AND OUTGO OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE TRUST FUNDS [1]—Continued

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (−)
1944	1,395	217	1,178
1945	1,434	267	1,167
1946	1,386	358	1,028
1947	1,623	466	1,157
1948	1,807	559	1,248
1949	1,924	661	1,263
1950	2,367	784	1,583
1951	3,411	1,568	1,843
1952	3,931	2,067	1,864
1953	4,483	2,717	1,766
1954	5,040	3,364	1,677
1955	5,534	4,436	1,098
1956	6,938	5,485	1,452
1957	7,439	6,666	773
1958	8,767	8,221	546
1959	9,037	9,737	−700
1960	11,421	11,629	−209
1961	12,906	12,475	431
1962	13,103	14,367	−1,264
1963	15,001	15,790	−789
1964	17,254	16,623	632
1965	17,657	17,463	194
1966	20,071	20,701	−630
1967	25,703	21,725	3,978
1968	26,441	23,860	2,581
1969	31,053	27,304	3,749
1970	36,126	30,274	5,853
1971	38,892	35,873	3,019
1972	43,207	40,157	3,050
1973	49,585	49,090	495
1974	57,703	55,867	1,836
1975	66,676	64,658	2,018
1976	70,682	73,903	−3,220
1976TQ	18,358	19,763	−1,405
1977	81,169	85,068	−3,899
1978	89,595	93,861	−4,266
1979	102,089	104,073	−1,984

Table 21.—INCOME AND OUTGO OF THE OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE TRUST FUNDS [1]—Continued

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (−)
1980	117,439	118,559	−1,120
1981	134,564	139,584	−5,020
1982	148,027	155,964	−7,937
1983	172,492	172,280	212
1984	181,128	180,866	262
Total: 1937–84	1,669,583	1,649,806	19,777

[1] Includes all income and outgo of the trust funds including transfers to and from the general fund of the Treasury.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 22.—INCOME AND OUTGO OF THE HOSPITAL INSURANCE TRUST FUND [1]

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (−)
1966	915	64	851
1967	3,089	2,597	492
1968	3,902	3,815	87
1969	5,344	4,758	586
1970	5,614	4,953	661
1971	6,018	5,592	426
1972	6,031	6,275	−244
1973	8,352	6,842	1,510
1974	11,610	8,065	3,545
1975	12,567	10,611	1,956
1976	13,544	12,579	966
1976TQ	3,516	3,404	112
1977	15,374	15,207	167
1978	18,543	17,862	681
1979	21,909	20,343	1,566
1980	25,415	24,287	1,127
1981	32,851	29,248	3,603
1982	37,611	34,864	2,747
1983	43,949	38,551	5,398
1984	45,732	42,295	3,437

Table 22.—INCOME AND OUTGO OF THE HOSPITAL INSURANCE TRUST FUND [1]—Continued

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (–)
Total 1966-84	321,885	292,212	29,673

[1] Includes all income and outgo of the trust fund including transfers to and from the general fund of the treasury.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 23.—INCOME AND OUTGO OF THE SUPPLEMENTARY MEDICAL INSURANCE TRUST FUND [1]

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (–)
1966			
1967	1,283.7	798.0	485.8
1968	1,353.2	1,532.3	–179.1
1969	1,910.6	1,839.5	71.1
1970	1,875.7	2,196.3	–320.6
1971	2,515.5	2,282.6	232.9
1972	2,734.3	2,543.7	190.7
1973	2,902.1	2,637.1	265.0
1974	3,809.3	3,282.8	526.5
1975	4,336.0	4,169.9	166.2
1976	4,980.3	5,200.1	–219.8
1976TQ	1,421.1	1,401.1	20.0
1977	7,382.6	6,341.7	1,040.9
1978	9,045.5	7,349.6	1,695.9
1979	9,839.6	8,804.7	1,034.9
1980	10,275.0	10,746.3	–471.3
1981	12,451.1	13,240.4	–789.4
1982	17,627.0	15,558.8	2,068.2
1983	19,147.1	18,316.8	830.3
1984	22,525.5	20,374.4	2,151.2
Total: 1966–84	137,415.2	128,61€.1	8,799.1

[1] Includes all income and outgo of the trust fund, including transfers to and from the general fund of the treasury.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 24.—INCOME AND OUTGO OF THE HOSPITAL AND SUPPLEMENTARY MEDICAL INSURANCE TRUST FUNDS [1]

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (−)
1966	915	64	851
1967	4,373	3,395	978
1968	5,256	5,347	−92
1969	7,255	6,598	657
1970	7,489	7,149	340
1971	8,534	7,875	659
1972	8,766	8,819	−53
1973	11,254	9,479	1,775
1974	15,419	11,347	4,071
1975	16,903	14,781	2,121
1976	18,524	17,779	746
1976TQ	4,937	4,805	132
1977	22,756	21,549	1,208
1978	27,588	25,211	2,377
1979	31,749	29,148	2,601
1980	35,690	35,034	656
1981	45,302	42,488	2,814
1982	55,237	50,423	4,814
1983	63,094	56,868	6,226
1984	68,257	62,669	5,588
Total: 1966–84	459,297	420,828	38,469

[1] Includes all income and outgo of the trust funds including transfers to and from the general fund of the Treasury.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 25.—INCOME AND OUTGO OF THE OLD-AGE, SURVIVORS, DISABILITY, AND HOSPITAL INSURANCE TRUST FUNDS [1]

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (−)
1937	267	0	267
1938	402	5	397
1939	530	14	516
1940	593	28	564
1941	744	91	653

Table 25.—INCOME AND OUTGO OF THE OLD-AGE, SURVIVORS, DISABILITY, AND HOSPITAL INSURANCE TRUST FUNDS [1]—Continued

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (−)
1942	967	137	829
1943	1,218	177	1,041
1944	1,395	217	1,178
1945	1,434	267	1,167
1946	1,386	358	1,028
1947	1,623	466	1,157
1948	1,807	559	1,248
1949	1,924	661	1,263
1950	2,367	784	1,583
1951	3,411	1,568	1,843
1952	3,931	2,067	1,864
1953	4,483	2,717	1,766
1954	5,040	3,364	1,677
1955	5,534	4,436	1,098
1956	6,938	5,485	1,452
1957	7,439	6,666	773
1958	8,767	8,221	546
1959	9,037	9,737	−700
1960	11,421	11,629	−209
1961	12,906	12,475	431
1962	13,103	14,367	−1,264
1963	15,001	15,790	−789
1964	17,254	16,623	632
1965	17,657	17,463	194
1966	20,986	20,765	221
1967	28,792	24,322	4,470
1968	30,343	27,675	2,668
1969	36,397	32,062	4,335
1970	41,740	35,226	6,513
1971	44,910	41,466	3,444
1972	49,239	46,433	2,806
1973	57,937	55,932	2,005
1974	69,313	63,932	5,381
1975	79,243	75,270	3,973
1976	84,227	86,481	−2,255
1976TQ	21,874	23,166	−1,293
1977	96,543	100,275	−3,732

Table 25.—INCOME AND OUTGO OF THE OLD-AGE, SURVIVORS, DISABILITY, AND HOSPITAL INSURANCE TRUST FUNDS [1]—Continued

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (–)
1978	108,138	111,722	–3,585
1979	123,998	124,416	–418
1980	142,854	142,846	8
1981	167,415	168,832	–1,417
1982	185,637	190,828	–5,191
1983	216,442	210,831	5,610
1984	226,860	223,161	3,699
Total: 1937–84	1,991,468	1,942,019	49,450

[1] Includes all income and outgo of the trust funds including transfers to and from the general fund of the Treasury.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Table 26.—INCOME AND OUTGO OF THE OLD-AGE, SURVIVORS, DISABILITY, HOSPITAL AND SUPPLEMENTARY MEDICAL INSURANCE TRUST FUNDS [1]

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (–)
1937	267	0	267
1938	402	5	397
1939	530	14	516
1940	593	28	564
1941	744	91	653
1942	967	137	829
1943	1,218	177	1,041
1944	1,395	217	1,178
1945	1,434	267	1,167
1946	1,386	358	1,028
1947	1,623	466	1,157
1948	1,807	559	1,248
1949	1,924	661	1,263
1950	2,367	784	1,583
1951	3,411	1,568	1,843
1952	3,931	2,067	1,864

Table 26.—INCOME AND OUTGO OF THE OLD-AGE, SURVIVORS, DISABILITY, HOSPITAL AND SUPPLEMENTARY MEDICAL INSURANCE TRUST FUNDS [1]—Continued

[In millions of dollars]

Fiscal year	Trust fund income	Trust fund outgo	Annual surplus or deficit (−)
1953	4,483	2,717	1,766
1954	5,040	3,364	1,677
1955	5,534	4,436	1,098
1956	6,938	5,485	1,452
1957	7,439	6,666	773
1958	8,767	8,221	546
1959	9,037	9,737	−700
1960	11,421	11,629	−209
1961	12,906	12,475	431
1962	13,103	14,367	−1,264
1963	15,001	15,790	−789
1964	17,254	16,623	632
1965	17,657	17,463	194
1966	20,986	20,765	221
1967	30,076	25,120	4,956
1968	31,696	29,207	2,489
1969	38,307	33,901	4,406
1970	43,616	37,423	6,193
1971	47,426	43,749	3,677
1972	51,973	48,977	2,996
1973	60,839	58,569	2,270
1974	73,122	67,215	5,907
1975	83,579	79,440	4,139
1976	89,207	91,681	−2,474
1976TQ	23,294	24,568	−1,273
1977	103,926	106,617	−2,691
1978	117,183	119,072	−1,889
1979	133,837	133,221	617
1980	153,129	153,593	−464
1981	179,866	182,073	−2,207
1982	203,264	206,387	−3,123
1983	235,586	229,148	6,438
1984	249,385	243,535	5,850
Total: 1937-84	2,128,879	2,070,635	58,245

[1] Includes all income and outgo of the trust funds including transfers to and from the general fund of the Treasury.

Source: Congressional Research Service based on data contained in *Historical Tables of the United States Government, FY 1986,* Office of Management and Budget, February 1985.

Appendix B

SELECTED EXCERPTS FROM THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974, P.L. 93-344

DECLARATION OF PURPOSES

SEC. 2. The Congress declares that it is essential—

(1) to assure effective congressional control over the budgetary process;

(2) to provide for the congressional determination each year of the appropriate level of Federal revenues and expenditures;

(3) to provide a system of impoundment control;

(4) to establish national budget priorities; and

(5) to provide for the furnishing of information by the executive branch in a manner that will assist the Congress in discharging its duties.

DEFINITIONS

SEC. 3. (a) IN GENERAL.—For purposes of this Act—

(1) The terms "budget outlays" and "outlays" mean, with respect to any fiscal year, expenditures and net lending of funds under budget authority during such year.

(2) The term "budget authority" means authority provided by law to enter into obligations which will result in immediate or future outlays involving Government funds, except that such term does not include authority to insure or guarantee the repayment of indebtedness incurred by another person or government.

(3) The term "tax expenditures" means those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability; and the term "tax expenditures budget" means an enumeration of such tax expenditures.

(4) The term "concurrent resolution on the budget" means—

(A) a concurrent resolution setting forth the congressional budget for the United States Government for a fiscal year as provided in section 301;

(B) a concurrent resolution reaffirming or revising the congressional budget for the United States Government for a fiscal year as provided in section 310; and

(C) any other concurrent resolution revising the congressional budget for the United States Government for a fiscal year as described in section 304.

(5) The term "appropriation Act" means an Act referred to in section 105 of title 1, United States Code.

ADOPTION OF FIRST CONCURRENT RESOLUTION[1]

SEC. 301. (a) ACTION TO BE COMPLETED BY MAY 15.—On or before May 15 of each year, the Congress shall complete action on the first concurrent resolution on the budget for the fiscal year beginning on October 1 of such year. The concurrent resolution shall set forth—

(1) the appropriate level of total budget outlays and of total new budget authority;

(2) an estimate of budget outlays and an appropriate level of new budget authority for each major functional category, for contingencies, and for undistributed intragovernmental transactions, based on allocations of the appropriate level of total budget outlays and of total new budget authority;

(3) the amount, if any, of the surplus or the deficit in the budget which is appropriate in light of economic conditions and all other relevant factors;

(4) the recommended level of Federal revenues and the amount, if any, by which the aggregate level of Federal revenues should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

(5) the appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt should be increased or decreased by bills and resolutions to be reported by the appropriate committees; . . .

SEC. 301. (d) HEARINGS AND REPORT.—In developing the first concurrent resolution on the budget referred to in subsection (a) for each fiscal year, the Committee on the Budget of each House shall hold hearings and shall receive testimony from Members of Congress and such appropriate representatives of Federal departments and agencies, the general public, and national organizations as the committee deems desirable. *Each of the recommendations as to short-term and medium-term goals set forth in the report submitted by the members of the Joint Economic Committee under subsection (c) may be considered by the Committee on the Budget of each House as part of its consideration of such concurrent resolution, and its report may reflect its views thereon, and on how the estimates of revenues and levels of budget authority and outlays set forth in such concurrent resolution are designed to achieve any goals it is recommending.*[2] On or before April 15 of each year, the Committee on the Budget of each House shall report to its House the first concurrent resolution on the budget referred to in subsection (a) for the fiscal year beginning on October 1 of such year. The report ac-

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[1] Section 301 was amended by sections 303(a) and 304 of Public Law 95–523; 92 Stat. 1905, 1906; Oct. 27, 1978; The Full Employment and Balanced Growth Act of 1978.

[2] This sentence was added by section 303(a) of Public Law 95–523; 92 Stat. 1905; Oct. 27, 1978; The Full Employment and Balanced Growth Act of 1978. That section actually added the sentence to subsection (c), but should have added it to this subsection.

companying such concurrent resolution shall include, but not be limited to—

(1) a comparison of revenues estimated by the committee with those estimated in the budget submitted by the President;

(2) a comparison of the appropriate levels of total budget outlays and total new budget authority, as set forth in such concurrent resolution, with total budget outlays estimated and total new budget authority requested in the budget submitted by the President;

(3) with respect to each major functional category, an estimate of budget outlays and an appropriate level of new budget authority for all proposed programs and for all existing programs (including renewals thereof), with the estimate and level for existing programs being divided between permanent authority and funds provided in appropriation Acts, and each such division being subdivided between controllable amounts and all other amounts;

(4) an allocation of the level of Federal revenues recommended in the concurrent resolution among the major sources of such revenues;

(5) the economic assumptions and objectives which underlie each of the matters set forth in such concurrent resolution and alternative economic assumptions and objectives which the committee considered;

(6) projections, not limited to the following, for the period of five fiscal years beginning with such fiscal year of the estimated levels of total budget outlays, total new budget outlays, total new budget authority, the estimated revenues to be received, and the estimated surplus or deficit, if any, for each fiscal year in such period, and the estimated levels of tax expenditures (the tax expenditures budget) by major functional categories;

(7) a statement of any significant changes in the proposed levels of Federal assistance to State and local governments; and

(8) information, data, and comparisons indicating the manner in which, and the basis on which, the committee determined each of the matters set forth in the concurrent resolution, and the relationship of such matters to other budget categories.

* * * * * * *

LEGISLATION DEALING WITH CONGRESSIONAL BUDGET MUST BE HANDLED BY BUDGET COMMITTEES

SEC. 306. No bill or resolution, and no amendment to any bill or resolution, dealing with any matter which is within the jurisdiction of the Committee on the Budget of either House shall be considered in that House unless it is a bill or resolution which has been reported by the Committee on the Budget of that House (or from the consideration of which such committee has been discharged) or unless it is an amendment to such a bill or resolution.

* * * * * * *

SECOND REQUIRED CONCURRENT RESOLUTION AND RECONCILIATION PROCESS

SEC. 310. (a) REPORTING OF CONCURRENT RESOLUTION.—The Committee on the Budget of each House shall report to its House a concurrent resolution on the budget which reaffirms or revises the concurrent resolution on the budget most recently agreed to with respect to the fiscal year beginning on October 1 of such year. Any such concurrent resolution on the budget shall also, to the extent necessary—

(1) specify the total amount by which—

(A) new budget authority for such fiscal year;

(B) budget authority initially provided for prior fiscal years; and

(C) new spending authority described in section 401(c)(2)(C) which is to become effective during such fiscal year,

contained in laws, bills, and resolutions within the jurisdiction of a committee, is to be changed and direct that committee to determine and recommend changes to accomplish a change of such total amount;

(2) specify the total amount by which revenues are to be changed and direct that the committees having jurisdiction to determine and recommend changes in the revenue laws, bills, and resolutions to accomplish a change of such total amount;

(3) specify the amount by which the statutory limit on the public debt is to be changed and direct the committees having jurisdiction to recommend such change; or

(4) specify and direct any combination of the matters described in paragraphs (1), (2), and (3).

Any such concurrent resolution may be reported, and the report accompanying it may be filed, in either House notwithstanding that that House is not in session on the day on which such concurrent resolution is reported.

(b) COMPLETION OF ACTION ON CONCURRENT RESOLUTION.—Not later than September 15 of each year, the Congress shall complete action on the concurrent resolution on the budget referred to in subsection (a).

(c) RECONCILIATION PROCESS.—If a concurrent resolution is agreed to in accordance with subsection (a) containing directions to one or more committees to determine and recommend changes in laws, bills, or resolutions, and—

(1) only one committee of the House or the Senate is directed to determine and recommend changes, that committee shall promptly make such determination and recommendations and report to its House a reconciliation bill or reconciliation resolution, or both, containing such recommendations; or

(2) more than one committee of the House or the Senate is directed to determine and recommend changes, each such committee so directed shall promptly make such determination and recommendations, whether such changes are to be contained in a reconciliation bill or reconciliation resolution, and submit such recommendations to the Committee on the Budget of its House, which upon receiving all such recommendations,

shall report to its House a reconciliation bill or reconciliation resolution, or both carrying out all such recommendations without any substantive revision.

For purposes of this subsection, a reconciliation resolution is a concurrent resolution directing the Clerk of the House of Representatives or the Secretary of the Senate, as the case may be, to make specified changes in bills and resolutions which have not been enrolled.

(d) COMPLETION OF RECONCILIATION PROCESS.—Congress shall complete action on any reconciliation bill or reconciliation resolution reported under subsection (c) not later than September 25 of each year.

(e) PROCEDURE IN THE SENATE.—

(1) Except as provided in paragraph (2), the provisions of section 305 for the consideration in the Senate of concurrent resolutions on the budget and conference reports thereon shall also apply to the consideration in the Senate of reconciliation bills and reconciliation resolutions reported under subsection (c) and conference reports thereon.

(2) Debate in the Senate on any reconciliation bill or resolution reported under subsection (c), and all amendments thereto and debatable motions and appeals in connection therewith, shall be limited to not more than 20 hours.

(f) CONGRESS MAY NOT ADJOURN UNTIL ACTION IS COMPLETED.—It shall not be in order in either the House of Representatives or the Senate to consider any resolution providing for the adjournment sine die of either House unless action has been completed on the concurrent resolution on the budget required to be reported under subsection (a) for the fiscal year beginning on October 1 of such year, and, if a reconciliation bill or resolution, or both, is required to be reported under subsection (c) for such fiscal year, unless the Congress has completed action on that bill or resolution, or both.

NEW BUDGET AUTHORITY, NEW SPENDING AUTHORITY AND REVENUE LEGISLATION MUST BE WITHIN APPROPRIATE LEVELS

SEC. 311. (a) LEGISLATION SUBJECT TO POINT OF ORDER.—After the Congress has completed action on the concurrent resolution on the budget required to be reported under section 310(a) for a fiscal year, and, if a reconciliation bill or resolution, or both, for such fiscal year are required to be reported under section 310(c) after that bill has been enacted into law or that resolution has been agreed to, it shall not be in order in either the House of Representatives or the Senate to consider any bill, resolution, or amendment providing additional new budget authority for such fiscal year, providing new spending authority described in section 401(c)(2)(C) to become effective during such fiscal year, or reducing revenues for such fiscal year, or any conference report on any such bill or resolution, if—

(1) the enactment of such bill or resolution as reported;

(2) the adoption and enactment of such amendment; or

(3) the enactment of such bill or resolution in the form recommended in such conference report;

would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such fiscal year to be exceeded, or would cause revenues to be less than the appropriate level of revenues set forth in such concurrent resolution.

(b) DETERMINATION OF OUTLAYS AND REVENUES.—For purposes of subsection (a), the budget outlays to be made during a fiscal year and revenues to be received during a fiscal year shall be determined on the basis of estimates made by the Committee on the Budget of the House of Representatives or the Senate, as the case may be.

Appendix C

PRESS STATEMENT OF PRESIDENT JOHNSON UPON APPOINTMENT OF THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS, MARCH 3, 1967

[White House Press Release from the Office of the White House Press Secretary, San Antonio, Texas, March 3, 1967]

STATEMENT BY THE PRESIDENT

I am today appointing a Commission of fifteen distinguished American citizens to make a thorough study of the Federal Budget and the manner in which it is presented to the Congress and the public.

Mr. David M. Kennedy, Chairman of the Board of the Continental Illinois National Bank & Trust Company of Chicago, will be Chairman of the Commission. The Chairmen and the ranking minority members of the Senate and House Appropriations Committees have also agreed to serve on the Commission. In addition, the Commission will include the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Comptroller General. The other members are private citizens, all recognized experts in the fields of finance and economics, some of whom have served previously in high government positions. I may appoint one or two other private citizens to the Commission in the near future.

In my Budget Message last January, I pointed out that:

> For many years—under many Administrations—particular aspects of the overall Budget presentation, or the treatment of individual accounts, have been questioned on one ground or another.
>
> In the light of these facts, I believe a thorough and objective review of budgetary concepts is warranted. I therefore intend to seek advice on this subject from a bipartisan group of informed individuals with a background in budgetary matters.

It is my hope that the group I am appointing today—outstanding and informed men with wide-ranging experience in business, government, economics, and budgetary matters—can advise me on the best approaches to the presentation of the Federal Budget.

Tradition and precedent have played an important role over the years in the shaping of our budgetary rules and presentation. The fact is that today all are agreed that some of our traditional budget concepts do not adequately portray how the Federal Government's activities affect the health of the American economy and the lives of the American people.

The Federal Budget is a vital document. The Federal Budget is a complex document. It is vital because it affects the lives of every man, woman, and child in this Nation. It is complex because it encompasses the full scope of the Federal Government's activities. Yet, because of its complexity and scope, there are few who understand it. The study this group is to undertake should assist both public and Congressional understanding of this important document.

I am asking the Commission to prepare its recommendations by September. If it appears necessary to extend the deliberations beyond this date, the September report can be in the nature of a progress report. It is my hope that at least some of the recommendations of the Commission can be incorporated in my next year's Budget.

We are fortunate in having assembled so able and distinguished a group of citizens to undertake this task.

Appendix D

PERTINENT EXCERPTS FROM THE REPORT OF THE PRESIDENT'S COMMISSION ON BUDGET CONCEPTS, MARCH 3, 1967

CHAPTER 2

PURPOSES OF THE BUDGET OF THE UNITED STATES

The budget is the key instrument in national policymaking. It is through the budget that the Nation chooses what areas it wishes to leave to private choice and what services it wants to provide through government. When enacted, the budget expresses the decisions of the Nation's elected representatives as to which government services should be provided at the Federal rather than the State or local level; through what programs and instruments; and at what level of activity and cost. And the budget serves as the principal instrument of fiscal policy for ensuring the prosperity, stable growth, and high employment of the American economy.

Budget formulation is a highly political exercise in the American democratic system, and it should not be otherwise. It is therefore essential that the budget be understandable, at least in broad outline, to as many of the public and their elected representatives as possible. Wise fiscal policy and wise choices for individual Federal programs depend, in the final analysis, on public and congressional understanding of the budget. Public understanding of the budget, and closely related topics of specialized information on Government plans are, in the Commission's view, of sufficient importance that one whole chapter of this Report—Chapter 8—is devoted to these matters.

While the public cannot be expected to become familiar with all the details and intricacies of the budget, it must be able to participate intelligently in the big decisions that come to focus there: the overall size of government; the relative emphasis on different government programs and activities intended to benefit the Nation; the efficiency and effectiveness of major government programs in the light of their intended purposes; the need for tax increases or the opportunities for tax cuts; and fiscal policies designed to promote national prosperity.

To meet these major objectives of public policy, and to provide the most effective instrument for managing these vital national affairs, the Commission believes that the Federal budget can and should be presented within the framework of a unified budget system and that the Government accounts should provide support readily for the budget.

The Commission recommends—and this is its most significant recommendation—that a unified budget concept, such as described in this Report, with complementary rather than competing concepts, be adopted;

that this unified concept henceforth be referred to as the Budget of the United States; and that it be consistently adhered to in:

- ***—The President's January budget;***
- ***—Publications revising the budget estimates or reporting results at year-end;***
- ***—Monthly financial reports from the Treasury on actual budget results;***
- ***—Estimates of overall budget results offered by the executive branch in congressional testimony and public statements on the need for tax or public debt legislation; and***
- ***—Reports on congressional action on the budget.***

The Commission recognizes that no single budget summary can adequately serve all the different purposes of the various users of Federal Government financial data, including the Government itself. Specialized tabulations of Federal receipts, expenditures, and appropriations are required for many purposes. Indeed, some of these are suitable for inclusion in the budget document itself or as special analyses. Other specialized tabulations may be developed and presented by outside experts or by Federal statistical agencies. But such alternative tabulations for special purposes, whether or not included in the budget document or other executive branch financial reports and statements on the Federal budget, *should be treated as subordinate or explanatory tabulations. They should not be regarded as "budgets" competing in prominence and attention with the basic Budget of the United States.*

TWO MAJOR PURPOSES

Of the various purposes for which the President's budget is prepared, two closely related purposes outweigh the rest. The budget is intended primarily to present the President's proposals for the coming fiscal year for congressional action on (1) new legislation and appropriations and (2) overall fiscal policy. These purposes are well described in the President's initial words in his budget message for fiscal year 1968 transmitted to the Congress on January 24, 1967:

"A Federal budget lays out a two-part plan of action:

- It proposes *particular programs,* military and civilian, designed to promote national security, international cooperation, and domestic progress.
- It proposes *total expenditures and revenues* designed to help maintain stable economic prosperity and growth."

In short, the budget must serve simultaneously as an aid in decisions about both the efficient allocation of resources among competing claims and economic stabilization and growth.

Essentials of a good budget

Both the particular program proposals and the overall fiscal policy aspects of the budget require congressional attention and action. In both respects, the President's proposals are required by law to be laid before the Congress every January. The budget message is, therefore, addressed "To the Congress of the United States."

These two aspects of the budget are vitally related to one another, and they should not be separated. The receipts and expenditures which make up the total fiscal policy of the budget flow from a multitude of individual revenue, appropriation, and legislative decisions. Each appropriation and tax law decision, therefore, has an economic impact as well as an allocative aspect.

In the Commission's view, a budget which is suitable for these interrelated major purposes should have the following characteristics:

- Summary measures of the budget should lend themselves readily to meaningful and significant measurement of the economic impact of the budget;
- Appropriations should relate clearly to expenditures, as well as being set out in a form that clearly indicates the congressional action requested for individual programs;
- The agencies and officials of the executive branch, who execute the budget after it is approved by Congress, must manage their programs effectively and efficiently, and be accountable for their stewardship of public funds. It is therefore necessary that the Treasury and agency accounts of actual financial transactions be directly related to the managerial and accountability requirements of Government agencies and officials. These accounts should also be verifiably related to the concepts used in the President's budget.

Present shortcomings

The Commission has been struck by the extent to which congressional and public attention to fiscal policy on the one hand, and program decisions on the other, have drifted apart, with alternative tabulations of the budget to suit these two purposes allowed to develop independently.

In recent years, many economists—including those who advise the President—have measured the fiscal impact of the Government's activities in terms of the national income accounts (NIA) budget, although this is not a budget in the sense of serving as an instrument of decision and control over individual agency programs.

At the same time, the Committees on Appropriations of the Congress, insofar as they have concerned themselves with receipt and expenditure totals at all, have tended to do so within the context of the administrative budget—a group of funds which is incomplete and inadequate as a measure of what the Government does and its economic impact.

The Commission has devoted a great proportion of its effort to finding a budget concept that could serve the basic purposes of both resource allocation and economic stabilization. It has sought a structure for the budget which would ensure that the interdependencies between these two functions of the budget receive due attention and appreciation by the executive, the Congress, outside specialists, and the general public.

NEED FOR A UNIFIED BUDGET

The Commission has been seriously concerned by the evolution of three different budget concepts. It believes that the existence of several budgets has led to public confusion about the budget, as has been made clear to it by informed representatives of the press, members and staff of congressional committees, and other experts.

Some major newspapers last January headlined the $169 billion expenditure total in the national income accounts. Some chose the $172 billion cash budget expenditure total. Others headlined the administrative budget at $135 billion. In one case, a lead story spoke of a "$169.2 billion national spending program wrapped around a record $135 billion administrative budget." Members of the press have pointed out to the Commission that they must follow one budget concept in their news stories at budget release time in January, but that different concepts are stressed at other times during the year. This confusion of concepts makes it difficult for the ordinary citizen to keep abreast of what his Government is doing.

The Commission has examined at length the various major purposes for which summary receipt and expenditure totals are required as part of the budget presentation. These purposes are to a considerable extent overlapping rather than in direct conflict with one another. The Commission believes that the principal purposes of the budget will be furthered through the unified and comprehensive approach recommended in this report. Other tabulations made for specific uses would assume the role of subsidiary, supporting, or explanatory statements. They would not be referred to as *budgets*. The terms *administrative budget, consolidated cash budget,* and *national income accounts budget* should all disappear. Of course, the Federal sector of the national income accounts would still be developed and published by the Department of Commerce and could be included in *Special Analyses* or tabulations in the budget document.

Need for better integration of expenditure and appropriation information

The details of the budget, and especially the large budget *Appendix,* focus predominantly on *appropriations, obligations, and program costs,* as required for review of the President's budget requests for particular programs by the Committees on Appropriations. However, the early and prominent portions of the budget message of the President– and the more widely read *Budget in Brief*—focus primarily on *expenditures*. Expenditures

rather than appropriations best indicate, for a given year or period, the current size of the budget and, in relation to receipts, the immediate economic impact of the budget. Appropriations, however, best indicate the choices being made between alternative programs and are a prerequisite to expenditures. It is through the appropriations process that the priorities for program emphasis are determined in the first instance.

Congress does not vote expenditures as such; it votes authorizing legislation and appropriations. Expenditures are a consequence of these actions. This fact is too little appreciated by much of the public—and perhaps even by individual Congressmen who are not close to the appropriations process. There is often confusion when the press reports that Congress has *reduced the budget* (meaning appropriations) by some amount and reports shortly later that *the budget* (meaning expenditures) has *increased* by some other amount.

The Commission recommends, therefore, a number of steps aimed at recognizing the key importance of new authorizing legislation and appropriations and at improving understanding of the relationship between appropriations and expenditures.

The Commission recommends that the President's budget message give more prominence to the new legislation and appropriations being requested of the Congress.

A summary presentation of appropriations should be provided early in the President's budget message and should be given a prominent place in the initial summary table of budget amounts. This presentation should show clearly the total amount of appropriations requiring current action by the Congress, as well as the total amount which will become available without further congressional action, including comparisons with the current and latest actual years. In addition, tabulations and statements on appropriations should, insofar as possible, follow the same concepts, definitions, and scope as the tabulations and statements on budget expenditures.

Both the Congress and the executive have an important responsibility to aid understanding of the budget by de-emphasizing alternative tabulations of authorizations that have been used from time to time to explain both the President's budget and the actions of the Congress on it. Specifically, in dealing with spending authorizations, the Commission believes that the concept presently embraced by the term *new obligational authority* is more meaningful than the present concept of *appropriations* in its narrow definition.*

*See Glossary, beginning page 95, for definitions of these and other special terms used in this Report and in the Commission staff papers and supporting materials published separately.

The Commission recommends the use of the broad concept currently referred to as "new obligational authority" by both the executive branch and the Congress. However, the Commission finds it desirable to rename this broader concept "appropriations," which is simpler to use and to understand, and is not technically inaccurate.

The term *appropriations* in its new sense would, therefore, include contract authorizations and authorizations to spend debt receipts, but would exclude appropriations to liquidate contract authorizations.

The committees of the Congress can help promote understanding of the budget by making all of their tabulations conform to this broader concept of appropriations. They can also promote understanding by reporting congressional action in terms of appropriations for *specific fiscal years* in addition to any reporting in terms of appropriations *in a particular congressional session*. Public understanding of the up-to-date status of the President's budget would be improved by frequent reports (monthly, or perhaps even more often) on the status of the President's total appropriation requests for the coming fiscal year during the period when the Congress is in session and the status of appropriations is changing. Public understanding would also be improved by being able to see, as an integral part of congressional reports on each appropriation bill, the cumulative effect of congressional actions on total appropriations for the fiscal year on the same basis as the President's January budget.

Finally, in view of the importance of revenues and expenditures in measuring the economic impact and the current status of the budget, the Commission urges increased congressional attention to the effect of its appropriation and legislative actions on estimated expenditure and receipt totals for the current and subsequent fiscal years. It is recognized that the Congress may have difficulty providing such information on a routine basis with the resources presently at its disposal. Eventually, however, it would seem desirable for periodic reports on progress through the Congress of the President's budget and legislative requests to include estimates of the effects of congressional action on *revenues and expenditures*, as well as on *appropriations*.

Resources allocation and the Planning-Programming-Budgeting system

As has been stated in explaining the Commission's recommendations for bringing appropriations and expenditures into closer relationship with one another in the budget presentation, one of the two major purposes of the budget is to provide the integrated framework for information and analyses from which the best possible choices can be made in allocating the public's money among competing claims. This means setting priorities and making choices among alternative government programs, both new and old, and deciding what public goals should be pursued through government programs and what should be left to private choice.

The Commission endorses the general approach which has been followed for many years in the President's budget of explaining the broad allocation of government resources in terms of a functional and subfunctional classification of budget expenditures cutting across agency lines.

The Commission has no specific suggestions to make about the particular functional classification now in use, although it recognizes that as the nature and character of government programs evolve in response to emerging public needs, changes in the functional classification become appropriate from time to time. Such changes should be made at the discretion of the President, after appropriate study, and should not require advance statutory action; statutory prescriptions make it difficult to keep the classification current in response to changed needs.

Within any one program, the application of resources among alternative means of production should be efficient, so that the greatest possible benefits will be obtained at least cost. This raises such questions as whether it would be better in a specific case to mechanize, at a large initial capital cost to achieve a lower labor and materials cost in later years, or to spend more now on maintenance of a building, or highway, in order to postpone the day when the building or highway will have to be replaced. It is often necessary to calculate whether it is more efficient to occupy a privately owned building under a lease than to occupy a Government-owned building. The answers to such questions of efficiency will differ from project to project.

The budget presentation should provide all of the information needed to provide the basis for sound program decisions. It should be understood, however, that the Commission does not have in mind that all the alternatives or the information needed to choose among them should be set out in the budget document. Rather, emphasis should be given to the decisions reached by the President and his subsequent recommendations to the Congress. In doing this, the budget document should provide the setting for a full presentation of the alternatives considered and their evaluation as the agencies appear before the appropriations and legislative committees in their hearings on appropriation requests and proposed legislation.

The Commission wishes to endorse the trend which is very noticeable over the last decade or so ,towards more understandable and analytical business-type financial statements in the budget *Appendix*, especially in the case of Government corporations and various credit programs.

The making of individual appropriations is, and will continue to be, the actual point of basic choice in allocating resources among government programs. The Commission believes it cannot overemphasize the importance of having the budget (including its *Appendix* and *Special Analyses*, and the justifications and testimony of the Government agencies) lay before the Committees on Appropriations a related body of information which will assist the Committees and the Congress in making the best possible alloca-

tion of resources in their action on individual appropriations. Therefore, the Commission endorses the growing use in recent years of the important Planning-Programming-Budgeting system (PPBS) approach to budget preparation and review, which is specifically designed to improve the mechanics of choice among alternative programs and approaches to meeting public needs and purposes. On the other hand, PPBS concerns itself with total costs and benefits to the entire Nation, not merely the revenues and expenditures of the U.S. Treasury. Since the incidence of many social costs and benefits is on the private sector, rather than the Treasury, such costs are not candidates for inclusion in the overall budget totals. Thus, while the PPBS analyses should be used to aid in the allocative process, the budget necessarily represents a financial plan for the Government, and the budget totals can hardly reflect total social costs and benefits.

ECONOMIC IMPACT OF THE BUDGET

The budget totals must be readily useful for analysis of the impact of the Federal budget on the economy. This is because the budget contains the President's fiscal policy recommendations, upon which the Congress must take action as surely as in the case of individual appropriation requests.

Every January for at least the past 10 years, the President's budget has included requests for either increases or decreases in tax rates requiring legislation by the Congress. These requests for changes in tax rates in turn have been increasingly based on the executive branch's analysis of the needs of the economy for either stimulative or restraining fiscal policy changes. It is thus apparent that the economic impact of the overall budget is an integral and highly important aspect of the President's January budget policy requests.

There have been substantial gains in recent years in general understanding of the relationship between the budget and the national economy. Not only are Presidential requests for tax rate changes now based on needs of the economy, but they are now typically received by the Congress with an attitude of "show us what these will do to the economy." Congressional hearings and congressional actions on tax legislation in recent years have been addressed primarily to the economic impact of the actual or proposed changes. Therefore, it is increasingly appropriate for the President's budget to include a meaningful presentation of the economic impact of the budget, and an understandable description and explanation of the President's fiscal policy recommendations.

To be able to do this in the simplest possible fashion, rules for calculating budget receipts and expenditures should lead to a measure of surplus and deficit which is useful for analyzing the economic impact of the budget. This objective has helped shape many of the Commission's individual

recommendations, but has been particularly important in developing the Commission's recommendations on the treatment of Federal lending.

Role of lending

In order to have the greatest possible access to expert views on fiscal impact and related economic aspects of the budget, the Commission sponsored jointly with the Brookings Institution a seminar on budget concepts for economic analysis involving leading economists from throughout the country. Papers and other documents relating to that meeting are being published in a separate volume of staff papers and other materials prepared for the Commission.

It is clear that different expenditure categories of the Federal budget—such as transfer payments (i.e., benefit payments or grants-in-aid), purchases of goods and services, and loan transactions—have varying impacts on the economy. As the Brookings seminar proceedings indicate, there is not complete consensus among economists on the precise effects of the various transactions on the economy, and on the best way to measure the overall impact of the budget. There is little doubt that individual analysts and students will continue to desire and search out a vast array of information for this purpose.

However, in measuring the economic impact of government receipts and expenditures, many economists, including most of those consulted by the Commission, think that the budget should be analyzed with reference to a measure of surplus or deficit from which loan transactions have been excluded. The Commission agrees with the arguments for special consideration of loans and other categories of expenditures. Although a government loan, like other expenditures, puts purchasing power into the other sectors of the economy, the borrower also assumes liability for ultimate repayment. The impact on the economy of this loan transaction is enough different from that of ordinary expenditures to warrant separate treatment of loans within the budget.

The Commission has concluded that a separate identification of loan transactions within the framework of a unified budget best accomplishes the dual requirements of a budget summary which is useful in analyzing economic impact, but one which also provides a comprehensive setting for the review of government programs and Presidential requests for congressional action. The proposed presentation in line with the Commission's thinking on this subject has been illustrated in Chapter I. It is important to note, however, that net lending must be combined with other expenditures in order to present the full scope of government financial activity.

Making the budget document a more useful fiscal policy statement

To judge the effect of proposed budget changes on the economy, it is also necessary that budget totals be consistent, from one year to the next.

Even with the best definitions of receipts and expenditures, it is impossible to judge whether a particular level of budget surplus or deficit is by itself expansive, restraining, or neutral in economic impact—and the budget surplus or deficit for a particular year should not be used in that oversimplified way. The expansionary or restraining influence of a budget surplus or deficit of a given absolute size depends on many factors, such as the composition of receipts and expenditures, changes in tax rates and spending totals, and private spending reactions to government fiscal actions.

However, even though little significance can be attached to the size of a budget surplus or deficit *per se*, it is generally possible to say that an *increase* in a budget deficit is expansionary; that a *decrease* in surplus is expansionary; that an *increase* in a surplus is restrictive; and that a *decrease* in a deficit is restrictive. Thus, by dealing with *changes* in surpluses or deficits rather than absolute levels for a single year, it is usually possible to judge with some accuracy the overall impact of fiscal policy changes upon the national economy.

In using budget data for fiscal policy purposes, it must be borne in mind that the economy influences the budget as well as the other way around. A revenue increase or decrease can come about either through a discretionary change in tax rates or, without any change in tax rates, simply in response to increases or decreases in taxable private incomes. For purposes of judging the impact of Federal fiscal policy, therefore, it is necessary to deal not merely with changes in the budget surplus or deficit but to distinguish for a particular budget year between the effects of deliberate changes in tax rates or expenditures and the effects on tax yields or transfer payments induced by changes in the level of income or employment. In order to aid the ready evaluation of these effects, the *high employment budget surplus* concept was developed a few years ago, and has been referred to from time to time in explaining the President's fiscal policy recommendations to the public and the Congress.

The *high employment budget surplus* is calculated by comparing actual expenditures with hypothetical tax revenues and transfer payments at assumed high employment. A given budget—i.e., an expenditure program and a set of tax *rates*—may show an *actual* deficit in a year of depression, while under conditions of high employment the same budget would yield a large surplus. A second budget, in effect in a year of moderate recovery, might show a slight surplus just because it was a year of recovery, but the second budget might show a smaller *high employment* surplus than the first. The first budget would probably be more restrictive on the economy than the second, although a superficial comparison of their *actual* surplus or deficit would suggest the opposite conclusion.

The Commission believes that the *high employment surplus* is a budget concept which has served a useful role in increasing understanding of the essentials of budget policies for full employment, and it favors steps to keep the basic ideas embodied in this measure before the Congress and the public.

The Commission points out, however, that if the *high employment surplus* is to be used as a measure of budget impact in a period when demand is strong and prices rising more than normally, some allowance for the effect of rising prices on budget revenues should be made to avoid understating the stimulative impact of the budget.

The Commission understands that the high employment surplus calculation is only an approximate indicator of fiscal impact, and can be, at best, only part of the information taken into account in determining fiscal policy requirements for stable growth. In considering the total economic impact of the budget a separation of direct loans from other expenditures is important. It is also necessary to take into account many factors which cannot be fully reflected in any measure of budget surplus or deficit. One of these factors is changes in the amounts of Government guaranteed and insured loans outstanding. There is an increasing trend toward providing such incentives to private credit, instead of making direct loans, to further public programs. Another important factor is how much, in total, the Government plans to borrow and how this borrowing is to be accomplished. All in all, the analysis of the economic impact of the budget is not a simple matter and it should not be made to appear so by giving undue emphasis to a single number or set of numbers in the primary budget summary.

The Commission does not wish to try to specify in detail how the executive branch should go about analyzing the impact of the budget, how it should explain and justify its fiscal policy recommendation to the public, or the exact division of responsibility between the *Budget* and the *Economic Report of the President*. However, the Commission does believe strongly that the economic impact of the budget is so important that it should receive prominent attention in the budget document. One alternative is a relatively brief tabular statement in a section of the budget devoted to a discussion of the total economic impact of the President's proposals in as definite and commonly understood terms as possible. This discussion would, of course, be supported as necessary by more detailed treatment in the *Economic Report*.

SIZE OF GOVERNMENT IN THE TOTAL ECONOMY

While less important than the two primary purposes of the budget, the Commission has also been influenced in its recommendations by the fact that the budget totals are commonly used to measure the relative size of government in the national economy. The budget totals should, therefore, lend themselves logically to this use. This is particularly relevant in connection with proposed rules for offsetting receipts against expenditures, which are discussed in Chapter 7. To state the Commission's recommendations in this regard only briefly at this point, the budget totals will be a more appropriate index of the relative size of government in the national economy if loan repayments and receipts which resemble business-type enterprise earnings, or returns on government property, are offset against the expenditures to which

they relate or for which they are earmarked, while taxes and other revenues representing the exercise of sovereign or regulatory powers unique to government are treated as budget receipts.

OTHER PURPOSES OF BUDGET TOTALS

The Commission believes that the recommendation in this report for tabulating budget totals within a unified concept of *the budget* will sharpen understanding of many policy decisions confronting the administration, the Congress, and citizens generally. To promote this understanding, the Commission hopes that the concepts recommended here will be maintained for a sufficiently long period that references to *the budget* will again become unambiguous.

At the same time the Commission reiterates that no single summary array of budget data can serve all purposes. Alternative tabulations of Federal receipts and expenditures are required for at least the following major purposes:

- To assist the Treasury in the management of its cash balances and in scheduling its debt management activities;
- To promote national income analysis in a social accounting system in which data for the Federal sector of the economy are consistent with and complementary to data for the other sectors;
- To assist in the Federal Reserve Board's flow-of-funds analysis, which in turn is important in the formulation of monetary policy;
- To promote analysis of the impact of Federal activity on the financial and credit markets;
- To provide insight into the effects of government activity on the balance of international trade and payments;
- To facilitate international comparisons of the role of government in different countries;
- To provide statistics for the Federal Government which are comparable to available information on State and local government activities in the United States in studying the role of total government activity in the country;
- To provide figures on government investment, since total fixed capital, public and private, is important in analyzing economic growth.

However, the requirement for special receipt and expenditure tabulations does not mean that all of them must be available in the budget and its supporting documents. To the extent they are concerned solely with data on actual performance after the fact, as distinct from plans and proposals for the future, they should ordinarily be provided by the Government's reporting system rather than the budget documents.

The Commission wholly supports the provision in budget documents of such supplementary information as is needed to evaluate more fully the

economic effects and costs of budget program and fiscal policy proposals, and the numerous questions which arise in an orderly and rational budget process. In fact, this is vital if we are to employ our limited resources wisely and effectively to meet public needs, and if we are to keep our national economy fully employed, stable, and growing. However, the Commission emphatically recommends—as was stated previously—that alternative, as opposed to complementary, tabulations of Federal Government, receipts and expenditures, whether or not suitable for inclusion in the budget document itself, should be treated as subordinate explanatory special analyses and not as *budgets* competing in prominence and attention with the basic *Budget of the United States.*

Chapter 3

COVERAGE OF THE BUDGET

In the private sector of the economy, the efficient allocation of resources is best performed in a decentralized fashion by the disciplines of the marketplace. In the public sector, however, it is the budget process which performs the resource allocation function.

To work well, the governmental budget process should encompass the full scope of programs and transactions that are within the Federal sector and not subject to the economic disciplines of the marketplace. This, however, poses practical questions as to precisely what outlays and receipts should be in *the budget* of the Federal Government. The answer to this question is not always as obvious as it may seem: the boundaries of the Federal establishment are sometimes difficult to draw.

Providing for national security or collecting census data are obviously activities of the Federal Government which should clearly be in "the budget." It is equally clear that the housewife's purchase of groceries or a private corporation's borrowing from a commercial bank represent transactions outside the Federal sector. Between these obvious extremes, however, are a wide variety of activities ranging from those clearly within the Federal domain to those clearly outside the Federal establishment. Should the activities of enterprises owned jointly by the Government and the private sector of the economy be included in the budget? What about clearly Government agencies, such as the Federal Reserve System, which are not by law (or by logic) subject to the standard annual congressional and executive branch budgetary disciplines? What about privately owned agencies which were established by the Federal Government in pursuit of public policy objectives but from which all government capital has now been withdrawn, such as the Federal home loan banks or Federal land banks? It is difficult to draw a boundary line in some of these cases without having programs included in the budget that do not seem greatly different from other excluded items.

Even for programs clearly within the scope of government, questions remain about *how* to include their transactions in the budget. For instance, are seigniorage revenues (coinage profits) a receipt, or a means of financing a deficit? Should the budget itself concentrate on current account transactions, with outlays for durable assets or recoverable loans handled in a separate capital budget? A number of difficult-to-classify transactions are discussed in this chapter, and others in chapters which follow.

The Commission's *major* recommendations with respect to coverage of the budget are:

• ***The budget should, as a general rule, be comprehensive of the full range of Federal activities. Borderline agencies and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion. Specifically, the budget should include the transactions of the Federal trust funds which are now outside the administrative budget (although the Commission believes that the identity and integrity of trust funds should be maintained);***

• ***Most agencies and transactions now included in the consolidated cash budget should continue to be reflected in the budget. However, the Commission recommends exclusion from the budget of those Government-sponsored activities which are now completely privately owned, and local receipts and expenditures of the District of Columbia Government;***

• ***The purchase of physical assets should not be set up as a separate capital budget, but should be included in the unified budget.***

THE FEDERAL GOVERNMENT'S BOUNDARY LINES

A full discussion of issues involved in delineating the outer boundaries of the Federal Government could easily carry into quite esoteric matters of philosophy and political theory. However, it quickly became clear to the Commission that the problem of defining the Federal Government's scope, for the purposes of this report, centered on whether a few key agencies and programs should be included or excluded.

In making the decisions about whether or not to include programs in the budget, the Commission has asked several questions: Who owns the agency? Who supplies its capital? Who selects its managers? Do the Congress and the President have control over the agency's program and budget, or are the agency's policies the responsibility of the Congress or the President only in some broad ultimate sense? The answer to no one of these questions is conclusive, and at the margin, where boundary questions arise, decisions have been made on the basis of a net weighing of as many relevant considerations as possible. In general, the Commission recommends a comprehensive budget, with very few exclusions. The following sections of this chapter put forth the reasoning underlying the conclusions of the Commission with respect to coverage.

Trust funds

The inclusion or exclusion of trust funds represents one of the most important budget boundary questions. The exclusion of the trust funds from the present administrative budget is the largest single difference between that measure and either the consolidated cash budget or the Federal sector of the national income accounts, and has been the major reason for increasing dissatisfaction with the administrative budget. For a variety of reasons,

discussed more fully below, and after careful deliberation, the Commission recommends that:

The budget should include the receipts and expenditures of trust funds. This recommendation fully recognizes that individual trust funds must be accounted for separately, and that their activities must be reported on in a way which allows the identity and integrity of trust fund transactions and balances to be preserved.

The trust fund programs have grown rapidly since the 1930's when most of the large funds were established. The exclusion of this large and growing volume of Federal activity from the administrative budget was an important reason for the development of the consolidated cash budget concept. In recent decades, considerable significance has been attached to the difference between the *Federally owned funds* included in the administrative budget, and the *trust funds* which were excluded. In theory, trust funds do not *belong* to the Federal Government; the Federal Government acts only as *trustee* for them. Old-age and survivors insurance, unemployment insurance, Federally aided highway construction, medicare, and civil service retirement represent some of the important and sizable programs handled through trust funds, rather than through Federally owned funds.

There has never been a question of the Federal Government's responsibility for determining the size and shape of the major trust fund programs, or for altering or redirecting these programs by appropriate changes in legislation. In fact, legislation changing contribution formulas or tax rates affecting trust fund revenues, or changing benefit and grant formulas affecting trust fund expenditures, has come to be expected with increasing frequency. Legislative changes affecting one or another of the major trust funds occur almost every year. Rather than removing funds from the influence of the administration or the Congress, the trust fund technique, in the case of major trust funds, earmarks certain expenditure programs for financing by specific taxes or other revenue sources. This couples the benefits and costs of these programs more closely, and it also lends a degree of assurance to beneficiaries and grantees that trust fund benefit or grant schedules once established will be protected.

The partial isolation from the budget and appropriations processes that results from financing programs through trust funds has its warm defenders and severe critics. The major criticism comes from those who want the budget process to embrace more fully and flexibly the relative costs and effectiveness of alternative approaches to program objectives and social needs.

With the passage of time, trust fund activities have loomed larger in both absolute and relative magnitude in the total picture of Federal Government receipts and expenditures. Receipts, expenditures, and the surplus or deficit in Federally owned funds, therefore, have correspondingly less significance.

It is clear to the Commission that the current surpluses of trust funds must be considered in calculating the effect of Federal Government activities on the level of income and employment, in managing Treasury cash balances, in deciding on Treasury cash borrowing needs, and in program evaluation.

The Commission *does not* recommend eliminating the concept of separate trust fund accounting. In many instances, in fact, it sees merit in earmarking specific revenue sources for well-defined programs of a long-run character. The need to respect the integrity of trust funds, and the requirements of control and accountability, in turn require the continued availability of trust fund receipt and expenditure figures separate from those of other funds. However, the Commission believes that the principal significance of trust funds for program decisions lies in an analysis of receipts and expenditures (cost and benefits) of the individual funds rather than in the totals for all trust funds combined, or the totals for Federally owned funds excluding trust funds.

The Commission feels it is important to emphasize budget totals which are inclusive of trust fund transactions. It does not object to the provision in the budget document of separate summary figures for the Federally owned funds, particularly during the period of transition to the new budget concepts, for the use of those whose main attention in the past has been to the administrative budget totals. However, in order to further the concept of a unified budget,

The Commission recommends strongly that the President's budget presentation give no attention to a surplus or deficit calculated on the basis of the administrative budget.

The Commission has carefully considered the administrative, accounting and other consequences of eliminating any separate, independent prominence to figures for the Federally owned funds taken as a group—the administrative budget—and it finds no serious obstacles in the way of fully implementing its recommendation within a relatively short period of time.

The surplus or deficit in the administrative budget is a misleading guide for measuring the fiscal impact of the budget on the economy. The administrative budget does not portray or price out the President's full program, nor does the administrative budget alone accurately measure congressional action on the President's requests. Congressional responsibility for trust fund receipts and expenditures is just as great as for Federally owned funds, since it can and does enact trust fund legislation with considerable frequency, although there is less flexibility available to the Congress to reduce trust fund expenditures.

One implication of the Commission's recommendation on trust funds is that some redefinition of appropriations for the trust funds would be desirable. As pointed out in Chapter 2, the Commission recommends that the tabulation of the Congressional appropriations in the President's budg-

et be as consistent as possible, in terms of scope and definition, with the tabulation of budget expenditures. If the budget is to include trust funds, therefore, two changes in the tabulation of appropriations requested and enacted would be desirable:

First, indefinite trust fund appropriations should be related to obligations expected to be incurred by the trust funds during the fiscal year, rather than being mechanically tied to trust revenues as they now are. If legislation is thought to be required to accomplish this change, the Commission would strongly endorse such legislation;

Second, an adjustment in arriving at overall appropriations totals should be made to eliminate interfund and intragovernmental transactions, comparable to the adjustments which are now made in tabulating overall budget expenditures.

The Commission has no specific recommendations to make for changes in the coverage of the trust funds, although it recognizes that a study of these funds may be appropriate, for other than budget concept purposes, because of the way the various funds have developed over the years. But since the activities involved would, under the Commission's recommendations, be included in the budget whether or not financed through trust funds, any such re-examination would not affect the budget totals.

Appendix E

STATEMENT OF PRESIDENT JOHNSON, INTRODUCING THE UNIFIED BUDGET CONCEPT, JANUARY 29, 1968

In my budget message last year, I called for a thorough and objective review of budgetary concepts by a bipartisan group of informed individuals with a background in budgetary matters. I stated my hope that this group would recommend an approach to budgetary presentation which would assist both public and congressional understanding of this vital document.

In March of 1967, a Commission on Budget Concepts was established to make such a review and report its recommendations to me. The Commission consisted of 16 distinguished Americans, including the chairmen and ranking minority members of the Appropriations Committees of the Congress, as well as top Government financial officials and eminently qualified private citizens.

This budget puts into effect most of the major recommendations in the Commission's report, which was presented to me on October 10, 1967. These include:

—A single *unified budget statement* to replace the three concepts previously used.

—*Comprehensive coverage* in the budget of all programs of the Federal Government and its agencies, including some $47 billion of trust funds as well as Federal funds.

—*Division between an expenditure account and a loan account,* using the former as a measure of economic impact for fiscal policy purposes.

—*Offsetting against related expenditures those receipts of the Government* which are market-oriented in character, rather than based on the Government's sovereign power to tax and regulate.

—*Highlighting action required of the Congress* on the budget and relating that action more closely to outlays.

—*Treating sales of participation certificates,* which had previously been considered as an offset to Government expenditures, as a means of financing the deficit.

Several other changes recommended by the Commission for adoption in future years are now under preparation for later application.

It is my hope that the far-reaching proposals made by the Commission, and their adoption for this budget, will serve the desired purposes of improving public understanding of the Federal budget and overcoming many of the inadequacies of the concepts formerly used.

Appendix F

EXCERPT FROM THE REPORT OF THE 1971 SOCIAL SECURITY ADVISORY COUNCIL RELATING TO THE INCLUSION OF SOCIAL SECURITY IN THE UNIFIED BUDGET

Even though the operations of the social security trust funds and other Federal trust fund programs are combined with the general operations of the Federal Government in the unified Federal budget policy decisions affecting the social security program should be based on the objectives of the program rather than on any effect that such decisions might have on the Federal budget. The operations of the social security and other Federal trust funds should continue to be identified as such and separated from the general operations of the Government.

Beginning with the budget for FY 1969, the operations of the social security program and other trust fund programs, as well as the general operations of the Federal Government, have been reflected in a unified budget. The purpose of combining all Federal operations into a single unified budget is to facilitate economic analysis; because the budget includes the receipts and expenditures of the Federal trust funds, the unified budget produces a true measure of the size and impact of Federal Government activity on the economy, and the fiscal and economic impact of the social security program, along with that of other Federal programs, is made more clearly explicit than had been the case previously.

Including trust fund transactions in the unified budget focuses attention on the fiscal and economic impact of the social security program in the context of total governmental operations. With the new procedure, any substantial imbalance between social security contribution income and outgo will affect the surplus or deficit position of the budget. This situation can create pressure to recommend or to defer changes in the social security law, not to further the objectives of the social security program, but rather to attain desired budget goals.

The Council realizes that the fiscal and economic impact of the social security program should not be ignored and agrees that the Federal budget should continue to include income and outgo of social security and other Federal trust funds. But the Council believes that basic tables in the budget should continue to identify trust fund income and expenditures and should continue to sepa-

rate them from other Government operations. And the Council urges that policy decisions relating to social security benefit payments and financing be governed by program purposes rather than by overall Federal budget objectives; that is, changes in social security benefits and financing should not be determined on the basis of their effects on total income and expenditures of the Federal budget. The Council's recommendation that each of the social security trust funds be maintained at a level roughly equal to about one year's outgo will reduce the possibility that policy decisions relating to the social security program will be unduly influenced by overall Federal budget objectives.

Appendix G

EXCERPTS FROM THE FINAL REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY, *SOCIAL SECURITY IN AMERICA'S FUTURE,* MARCH 1981, RECOMMENDING REMOVAL OF SOCIAL SECURITY AND MEDICARE FROM THE UNIFIED BUDGET (INCLUDING DISSENTING STATEMENTS)

Recommendation of the Majority

In 1969, the operations of the social security trust funds were included in the unified budget for the first time. Prior to that time, the trust funds were considered separately from other government operations, and they did not affect the overall balance of the Federal budget. Inclusion of these funds in the budget has been criticized because of the artificial effect they have on the balance of the budget. For instance, in 1969, the excess of income over outgo in the old-age, survivors, and disability insurance program had the effect of "balancing" the budget recommended by the President which, in the absence of these funds would have shown a deficit. *The National Commission recommends that the operation of the social security and medicare trust funds be removed from the unified budget.*

Of course, any transactions involving payments from the general fund of the Treasury to the trust funds (such as interest or reimbursement for military service wage credits) would be shown in the budget as outgo items.

Dissenting Statement on Removing Social Security From the Unified Budget

(By Mr. Laxson and Mr. MacNaughton)

We strongly oppose the majority's recommendation to eliminate social security and medicare trust fund expenditures and income from the Federal unified budget. The Commission's proposal is particularly ironic and inconsistent in light of (1) its recommendation for general revenue financing of one-half of hospital insurance now and part of social security later and (2) the ongoing general fund financing of supplementary medical insurance.

Removing social security from the unified budget would be a step backward in terms of budget process efficiency and fiscal responsibility. Social security benefits and payroll taxes impact in a major way on private sector economic activities; accordingly, Congress must consider their levels within the context of the entire budget as it formulates fiscal policy. Excluding social security from the unified budget would not remove the program from the budget or appropriations process, but would only confuse and hinder economic policymaking.

Dissenting Statement on an Independent Social Security Board and on Removing Social Security From the Unified Budget

(By Mr. Gwirtzman)

I am not impressed by the argument for removing the social security Administration from the Department of Health and Human Services and setting it up as an independent agency. Other programs financed through separate taxation and trust funds, such as unemployment compensation and the Federal highway program exist under the general supervision of Cabinet departments. The internal administrative problems of the social security Administration seem to me to be of the type endemic to any large government organization, and which would be neither helped nor hurt by creating an independent board.

I am concerned that this proposal would mean further dismemberment of the Department of Health and Human Services, which has already seen its education programs transferred to the new Department of Education. Severing social security, medicare, and medicaid would result in the loss of about 60 percent of the Department's personnel and would leave little to justify its continued existence as a separate Cabinet department.

In its recent report entitled *U.S. Income Security System Needs Leadership, Policy, and Effective Management,* the General Accounting Office has identified 37 separate income maintenance programs in the Federal Government, and urged that they be better coordinated. By further separating social security, medicare and medicaid from the others, the Commission proposal goes in the wrong direction at a time when more uniformity and better policy control is needed over the income maintenance area, which accounts for about 40 percent of the Federal budget.

For similar reasons, I oppose removing the trust funds from the unified budget. When social security was young and needed to prove its independence in order to grow, there may have been good reason for excluding it from the budget. It is now too important a part of the Nation's domestic policy and the Government's expenditures to be operated independently from the democratic controls that all other programs must face as part of the budget process. I have no doubt that when social security presents its needs to the Administration and Congress in competition with other national priorities, its program will be found important enough to deserve full funding. But it should not be exempt from this necessary policy competition.

Appendix H

EXCERPT FROM THE REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM, JANUARY 1983, RECOMMENDING REMOVAL OF SOCIAL SECURITY AND MEDICARE FROM THE UNIFIED BUDGET

A majority of the members of the National Commission recommends that the operations of the OASI, DI, HI, and SMI trust funds should be removed from the unified budget. Some of those who do not support this recommendation believe that the situation would be adequately handled if the operations of the social security program were displayed within the present unified Federal budget as a separate budget function, apart from other income security programs.

Before FY 1969, the operations of the social security trust funds were not included in the unified budget of the Federal Government, although they were made available publicly and were combined, for purposes of economic analysis, with the administrative budget in special summary tables included in the annual budget document. Beginning then, the operations of the social security trust funds were included in the unified budget. In 1974, Congress implicitly approved the use of a unified budget by including social security trust fund operations in the annual budget process. Thus, in years when trust-fund income exceeded outgo, the result was a decrease in any general budget deficit that otherwise would have been shown—and vice versa.

The National Commission believes that changes in the social security program should be made only for programmatic reasons, and not for purposes of balancing the budget. Those who support the removal of the operations of the trust funds from the budget believe that this policy of making changes only for programmatic reasons would be more likely to be carried out if the social security program were not in the unified budget. Some members also believe that such a procedure will make clear the effect and presence of any payments from the general fund of the Treasury to the social security program. (Under present procedures, such payments are a "wash" and do not affect the overall budget deficit or surplus.)

Those who oppose this recommendation believe that it is essential that the operations of the social security program should remain in the unified Federal budget because the program involves such a large proportion of all Federal outlays. Thus, to omit its operations would misrepresent the activities of the Federal Government and their economic impact. Furthermore, it is important to ensure that the financial condition of the social security program be constantly visible to the Congress and the public. Highlighting the operations of the social security program as a separate line function in the budget would allow its impact thereon to be seen more clearly.

Appendix I

LANGUAGE OF CURRENT LAW REQUIRING SOCIAL SECURITY AND HOSPITAL INSURANCE TO BE REMOVED FROM THE BUDGET IN FY 1993

PUBLIC LAW 98-21—APR. 20, 1983

BUDGETARY TREATMENT OF TRUST FUND OPERATIONS

SEC. 346. (a)(1) Title VII of the Social Security Act (as amended by section 143 of this Act) is further amended by adding at the end thereof the following new section:

"BUDGETARY TREATMENT OF TRUST FUND OPERATIONS

"SEC. 710. The disbursements of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, the Federal Hospital Insurance Trust Fund, and the Federal Supplementary Medical Insurance Trust Fund shall be treated as a separate major functional category in the budget of the United States Government as submitted by the President and in the congressional budget, and the receipts of such Trust Funds, including the taxes imposed under sections 1401, 3101, and 3111 of the Internal Revenue Code of 1954, shall be set forth separately in such budgets.". 42 USC 911.

26 USC 1401, 3101, 3111.

(2) The amendment made by paragraph (1) shall apply with respect to fiscal years beginning on or after October 1, 1984, and ending on or before September 30, 1992, except that such amendment shall apply with respect to the fiscal year beginning on October 1, 1983, to the extent it relates to the congressional budget.

Effective date. 42 USC 911 note.

(b) Effective for fiscal years beginning on or after October 1, 1992, section 710 of such Act (as added by subsection (a) of this section) is amended to read as follows:

"BUDGETARY TREATMENT OF TRUST FUND OPERATIONS

"SEC. 710. (a) The receipts and disbursements of the Federal Old-Age and Survivors Insurance Trust Fund, the Federal Disability Insurance Trust Fund, and the Federal Hospital Insurance Trust Fund and the taxes imposed under sections 1401, 3101, and 3111 of the Internal Revenue Code of 1954 shall not be included in the totals of the budget of the United States Government as submitted by the President or of the congressional budget and shall be exempt from any general budget limitation imposed by statute on expenditures and net lending (budget outlays) of the United States Government.

"(b) The disbursements of the Federal Supplementary Medical Insurance Trust Fund shall be treated as a separate major functional category in the budget of the United States Government as submitted by the President and in the congressional budget, and the receipts of such Trust Fund shall be set forth separately in such budgets.".

Appendix J

LIST OF INTRAGOVERNMENTAL TRANSFERS AFFECTING THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS

The following sources of income to the social security and medicare trust funds are internal or intragovernmental transfers which do not cause real receipts or expenditures to and from the Government.

Payments from the general fund:

—representing the Government's contribution to the supplementary medical insurance program;
—representing interest on trust fund investments;
—representing the Government's share of social security and medicare taxes paid as an employer;
—to finance the cost of gratuitous military wage credits;
—to finance the cost of benefits paid to uninsured persons;
—representing the revenue loss from the 1984 FICA credit;
—representing the revenue loss from the 1984–89 SECA credits;
—representing advances of the expected income tax receipts from taxing social security benefits;
—representing past unnegotiated checks.

Transfers to the various trust funds under the interfund borrowing authority representing both principal and interest.

In addition, the following items of outgo from the trust funds are not considered as outlays from the Government:

—Transfers from the various trust funds under the interfund borrowing authority representing both principal and interest; and
—Payments to the general fund for interest on the advances made to the trust funds at the first of each month representing the expected tax receipts for the month.

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